

(Expressed in HK\$'000)

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

### Principal activities

The principal activity of the Company is investment holding. Details of the principal activity of its principal subsidiaries are set out in notes 1 and 16 to the financial statements.

### Segment information

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2004 is set out in note 4 to the financial statements.

### Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 88.

The directors do not recommend the payment of any dividend in respect of the year.

### Summary financial information

A summary of the results and of the assets, liabilities and minority interests of the Group, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

#### Results

	2004	Year ended 31 December			
		2003	2002	2001	2000
Turnover	<b>3,610,791</b>	24,535	24,003	52,753	58,451
Profit/(loss) before tax	<b>116,919</b>	(52,005)	(15,217)	(10,244)	23,888
Tax	<b>(64,426)</b>	–	–	–	17,183
Profit/(loss) before minority interests	<b>52,493</b>	(52,005)	(15,217)	(10,244)	41,071
Minority interests	<b>(2,631)</b>	–	–	–	153
Net profit/(loss) attributable to shareholders	<b>49,862</b>	(52,005)	(15,217)	(10,244)	41,224

## Report of the directors

(Expressed in HK\$'000)

### Summary financial information (continued)

#### Assets, liabilities and minority interests

	2004	31 December			
		2003	2002	2001	2000
Non-current assets	2,376,204	94,770	120,541	114,703	125,812
Current assets	2,999,004	1,135,268	1,131,845	1,166,501	34,703
Total assets	5,375,208	1,230,038	1,252,386	1,281,204	160,515
Current liabilities	1,369,385	47,686	18,029	1,029,894	32,662
Non-current liabilities	1,303,205	11,862	11,862	11,699	23,462
Total liabilities	2,672,590	59,548	29,891	1,041,593	56,124
Minority interests	19,693	–	–	–	–
	2,682,925	1,170,490	1,222,495	239,611	104,391

#### Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

#### Share capital

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

#### 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 existing shareholders.

#### Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

#### Distributable reserves

As at 31 December 2004, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is able to pay off its debts as and when they fall due. The Company's share premium account, with a balance of HK\$2,561,962,000 as at 31 December 2004, may be distributed in the form of fully paid bonus shares.

### Charitable contributions

During the year, the Group made charitable contributions totalling HK\$672,000 (2003: HK\$193,000).

### Major customers and major suppliers

In the year under review, sales to the Group's five largest customers accounted for 33.5% of the total sales for the year and sales to the largest customer included therein amounted to 9.5%. Purchases from the Group's five largest suppliers accounted for 46.1% of the total purchases for the year and purchases from the largest supplier included therein amounted to 13.3%.

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 at any time during the year in the Group's five largest customers or suppliers.

### Directors

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

#### Executive directors:

Mr. Kwok Viem, Peter

Mr. Ma Ting Hung

Ms. Li So Mui

Mr. Mi Zengxin (appointed on 1 April 2004)

Mr. Qiu Yiyong

Mr. Sun Xinguo

Mr. Tian Yuchuan (resigned on 1 April 2004)

Mr. Zeng Chen (appointed on 1 April 2004)

Mr. Zhang Jijing

#### Independent non-executive directors:

Mr. Chan Mo Po, Paul (appointed on 1 December 2004)

Mr. Fan Ren Da, Anthony

Mr. Tsang Link Carl, Brian

The independent non-executive directors are not appointed for a specific term and all of the directors, without limitation to executive directors, are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-laws.

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Chan Mo Po, Paul will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

### Directors (continued)

In accordance with bye-law 87(1) and (2) of the Company's bye-laws, Mr. Kwok Viem, Peter, Mr. Qiu Yiyong and Mr. Zhang Jijing will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### 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.

### Directors' interests in contracts

During the year, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

### Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

#### *Long positions in ordinary shares of the Company*

Name of director	Nature of interest	Number of ordinary shares of HK\$0.05 each held	Percentage of the total issued share capital of the Company
Mr. Kwok Viem, Peter (Note)	Corporate	612,000,000	14.18
Mr. Ma Ting Hung (Note)	Corporate	612,000,000	14.18
Mr. Zhang Jijing	Family	28,000	–

Note: The shares disclosed above are held by United Star International Inc., a company incorporated in the British Virgin Islands, which is beneficially owned as to 50% by Mr. Kwok Viem, Peter and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in the 612,000,000 shares.

*Long positions in shares and underlying shares of the associated corporations of the Company*

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivatives	Number of shares/equity derivatives held	Percentage of the total issued share capital of Capacity and nature of interest	the associated corporation
Mr. Zeng Chen	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	166,666 (Note (2))	Directly beneficially owned	0.20
			Share option (Note (1))	166,666 (Note (3))	Directly beneficially owned	N/A
				166,668 (Note (4))	Directly beneficially owned	N/A
Mr. Zhang Jijing	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	291,440 (Note (2))	Directly beneficially owned	0.35
			Share option (Note (1))	200,000 (Note (3))	Directly beneficially owned	N/A
				200,000 (Note (4))	Directly beneficially owned	N/A

Notes:

- (1) On 14 June 2002, Mr. Zeng Chen and Mr. Zhang Jijing were granted options to subscribe for 500,000 ordinary shares and 600,000 ordinary shares of A\$1.00 each respectively, at an exercise price of A\$0.20 per share, in CITIC Australia Trading Limited ("CATL"). The options were granted free of consideration. The exercise period will end on 18 June 2007.
- (2) During the year, aggregate of 166,666 and 200,000 share options were executed by Mr. Zeng Chen and Mr. Zhang Jijing, further details of which are set out in note 16 to the financial statements.
- (3) On 14 May 2004, the strike price for the second tranche of the options was set at A\$0.30 per option. On the same day, the closing price of CATL's shares on the Australian Stock Exchange was A\$0.42 per share.
- (4) On 14 May 2004, the strike price for the third tranche of the options was set at A\$0.35 per option. On the same day, the closing price of CATL's shares on the Australian Stock Exchange was A\$0.42 per share.

In addition to the above, one of the directors has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

### Directors' and chief executive's interests and short positions in shares, underlying shares and debentures (continued)

Save as disclosed above, as at 31 December 2004, none of the directors and chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which was required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### Directors' rights to acquire shares or debentures

Apart from the share option scheme disclosed in note 28 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company 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.

### Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2004, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the directors, the persons or entities who had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Name of shareholder	Notes	Number of ordinary shares of HK\$0.05 each held	Percentage of the total issued share capital of the Company
CITIC Group	1	2,610,594,381	60.47
CITIC Projects Management (HK) Limited	2	1,860,180,588	43.09
Keentech Group Limited	2	1,860,180,588	43.09
CITIC Australia Pty Limited	3	750,413,793	17.38
United Star International Inc.	4	612,000,000	14.18
Mr. Kwok Viem, Peter	4	612,000,000	14.18
Mr. Ma Ting Hung	4	612,000,000	14.18

## Substantial shareholders' and other persons' interests and short positions in shares and underlying shares (continued)

### Notes:

- (1) This figure represents an attributable interest in CITIC Group ("CITIC Group") through its interest in CITIC Projects Management (HK) Limited and CITIC Australia Pty Limited ("CA"). CITIC Group is a company incorporated in the People's Republic of China.
- (2) Keentech Group Limited ("Keentech"), a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Projects Management (HK) Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of CITIC Group.
- (3) CA, a company incorporated in Australia, is a direct wholly-owned subsidiary of CITIC Group.
- (4) The figure represents an attributable interest of each of Mr. Kwok Viem, Peter, and Mr. Ma Ting Hung respectively as the beneficial owner of 50% of United Star International Inc. These interests are also included as corporate interests of Mr. Kwok Viem, Peter and Mr. Ma Ting Hung, as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above.

Save as disclosed herein, so far as is known to the directors, as at 31 December 2004, no person had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

## Purchase, redemption or sale of listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## Related party transactions and connected transactions

Details of related party transactions and connected transactions of the Company and of the Group are set out in note 35 to the financial statements.

In the opinion of the independent non-executive directors of the Company, the Group's rental arrangements with 99 King Street Property Management Pty Limited have been entered into:

- (i) in the ordinary and usual course of its business;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

### Related party transactions and connected transactions (continued)

- (iii) in accordance with the relevant agreements governing such ongoing connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed such transactions and confirmed in writing to the board of directors of the Company stating that such connected transactions:

- (i) have received the approval of the board of directors of the Company;
- (ii) have been entered into in accordance with the relevant agreements governing the transactions; and
- (iii) have not exceeded the amounts set out in the description of the ongoing connected transactions set out in note 35.

### Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 36 to the financial statements.

### Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

### Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

### Auditors

Ernst & Young 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  
**Peter Kwok Viem**  
*Chairman*

Hong Kong, 19 April 2005