

Directors' Report

The Directors have pleasure in presenting to shareholders their report for the year ended 31 December 2005.

Principal Activities

The principal activity of the Company is holding its subsidiary companies and the principal activities of its subsidiary companies and associated companies and their major areas of operation are set out in the Business Review on pages 6 to 33.

Dividends

The Directors declared an interim dividend of HK\$0.30 per share in respect of the year ended 31 December 2005 which was paid on 22 September 2005. The Directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK\$0.80 per share in respect of the year ended 31 December 2005 payable on 17 May 2006 to shareholders on the Register of Members at the close of business on 12 May 2006.

Reserves

The amounts and particulars of transfer to and from reserves during the year are set out in Note 26 to the accounts.

Donations

Donations made by the Group during the year amounted to HK\$5 million.

Fixed Assets

Movements of fixed assets are set out in the Financial Statements on pages 102 to 109.

Major Customers and Suppliers

The percentage of purchases and sales with the Group's suppliers and customers are as follows:

Purchases	2005	2004
The largest supplier	3	10
Five largest suppliers combined	11	20

The aggregate percentage of sales to the Group's five largest customers is less than 30%.

No directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

Subsidiary Companies

The names of the principal subsidiary companies, their principal places of operation, their countries of incorporation and particulars of their issued share capital are set out in Note 35 to the accounts.

Issue of Debt Securities

On 15 February 1996, the Company issued and sold US\$100 million aggregate principal amount of its 7.37% Senior Notes due 2006 ('Senior Notes') to financial institutions pursuant to note purchase agreements dated 15 February 1996. All of the Senior Notes were fully redeemed on 15 February 2006.

On 1 June 2001, CITIC Pacific Finance (2001) Limited, a wholly owned subsidiary of the Company, issued and sold a total of US\$450 million principal amount of 7.625% guaranteed notes due 2011 ('Guaranteed Notes') for refinancing the indebtedness of the Company and for general corporate purposes, to investors pursuant to the purchase agreements dated 24 May 2001 and 1 June 2001. All of the Guaranteed Notes remained outstanding at the end of the year.

On 26 October 2005, CITIC Pacific Finance (2005) Limited, a wholly owned subsidiary of the Company, issued and sold JPY 8.1 billion in aggregate principal amount of guaranteed floating rate notes due 2035 ('JPY Notes') to investors for general corporate purposes pursuant to a subscription agreement dated 26 October 2005. The coupon and principal of the JPY Notes was swapped into Hong Kong Dollar through cross currency swap and net proceeds equivalent to HK\$400 million was received. The JPY Notes holders have a one time right to put the JPY Notes to the issuer at 81.29% of the principal amount together with accrued interest on 28 October 2015. All of the JPY Notes remained outstanding at the end of the year.

Save as aforesaid, neither the Company nor its subsidiary companies have issued any debt securities.

Borrowings

Particulars of borrowings of the Group are set out in Note 27 to the accounts.

Directors

Mr Leslie Chang Li Hsien was appointed as an executive director of the Company with effect from 1 April 2005 and Mr Chang Zhenming resigned as director with effect from 15 June 2005. In addition, with effect from 1 April 2006, Mr Yao Jinrong will resign as director and Messrs Chau Chi Yin, Milton Law Ming To and Wang Ande will be appointed as executive directors of the Company. Except for these changes, the directors of the Company whose names and biographical details appear on pages 61 to 63 were the directors in office during the financial year ended 31 December 2005.

In accordance with Article 95 of the New Articles of Association of the Company, Messrs Chau Chi Yin, Milton Law Ming To and Wang Ande will hold office only until the forthcoming Annual General Meeting and are then eligible for re-election. In addition, pursuant to Article 104(A) of the New Articles of Association of the Company, Messrs Henry Fan Hung Ling, Li Shilin, Carl Yung Ming Jie, Hamilton Ho Hau Hay, Alexander Reid Hamilton and Hansen Loh Chung Hon shall retire by rotation in the forthcoming Annual General Meeting and all, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the new independence guidelines under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ('Listing Rules') and that the Company still considers such directors to be independent.

Management Contract

The Company entered into a management agreement with CITIC Hong Kong (Holdings) Limited ('CITIC HK') on 11 April 1991 but with retrospective effect from 1 March 1990 in which CITIC HK agreed to provide management services to the Company and its subsidiary companies for a management fee calculated on a cost basis to CITIC HK payable quarterly in arrears. The management agreement is terminable by two months' notice by either party. Messrs Larry Yung Chi Kin, Henry Fan Hung Ling, Vernon Francis Moore and Liu Jifu had indirect interests in the management agreement as they are directors of CITIC HK. A copy of the management agreement will be available for inspection at the Annual General Meeting of the Company to be held on 12 May 2006.

Directors' Interests in Contracts of Significance

None of the directors of the Company has or at any time during the year had, an interest which is or was material, either directly or indirectly, in any contract with the Company or any of its subsidiary companies, which was significant in relation to the business of the Company, and which was subsisting at the end of the year or which had subsisted at any time during the year.

Connected Transactions

Connected transactions disclosed in accordance with the Listing Rules are as follows:

1. Pursuant to a concession agreement dated 9 April 2004 ('Concession Agreement') entered into between Zunyi Municipal Administration Bureau on behalf of the Zunyi Municipal People's Government and Compagnie Generale des Eaux ('CGDE') on behalf of the JV Companies (as defined below), one of the JV Companies was granted the right to acquire two existing water treatment facilities, the Nanjiao Facility and the Beijiao Facility in the People's Republic of China ('the Facilities') at RMB152 million and to operate and maintain the Facilities. The Concession Agreement is conditional upon, among other things, the business licences of JV Companies having been issued. The Concession Agreement shall expire if the conditions precedent cannot be fulfilled within twelve months.

On 9 June 2004, the Group entered into two agreements with CGDE to form CGE (Zunyi) Water Treatment Co., Ltd. ('Asset Company') and CGE (Zunyi) Water Treatment Operation Co., Ltd. ('Operation Company', together with Asset Company, the 'JV Companies'). The Group and CGDE will be respectively interested in 75% and 25% of Asset Company, and 25% and 75% of Operation Company.

On 18 June 2004, the Group and CGDE further entered into a delegation agreement ('the Delegation Agreement') on behalf of the JV Companies so that upon their formation, Asset Company shall delegate the right to operate and maintain the Facilities to Operation Company. Upon establishment of the JV Companies, CGDE will be a substantial shareholder of Asset Company and will become a connected person of the Company. The arrangement under the Delegation Agreement will constitute continuing connected transactions of the Company.

However, due to lengthy processing by the PRC authorities, the JV Companies had not been formed upon expiration of the Concession Agreement. The incidental documents including the Delegation Agreement were thereby terminated.

2. Pursuant to the sale and purchase agreement dated 20 January 2006 entered into between Newmarket Holdings Limited, a wholly owned subsidiary of the Company, the Company, Swire Properties Limited ('Swire Properties') and Swire Pacific Limited ('Swire Pacific'), the Group's entire 50% interest in Festival Walk, represented by one ordinary share in Supreme Luck Investments Ltd. ('Supreme Luck'), a wholly owned subsidiary of the Company, and a shareholder's loan from the Company to Supreme Luck, was disposed to Swire Properties at the consideration of HK\$6,180 million (subject to adjustment based on the completion accounts). Festival Walk is a shopping and commercial complex located at Kowloon Tong, Kowloon. The transaction was completed on 3 March 2006.

Swire Pacific is a substantial shareholder of a subsidiary of the Company and Swire Properties is a wholly owned subsidiary of Swire Pacific. Thus, both Swire Properties and Swire Pacific are connected persons of the Company.

Share Option Plan

The Company adopted the CITIC Pacific Share Incentive Plan 2000 ('the Plan') on 31 May 2000. The major terms of the Plan are as follows:

1. The purpose of the Plan is to promote the interests of the Company and its shareholders by (i) providing the participants with additional incentives to continue and increase their efforts in achieving success in the business of the Company, and (ii) attracting and retaining the best available personnel to participate in the on-going business operation of the Company.
2. The participants of the Plan are any director, executive or employee of the Company or its subsidiaries as invited by the Board.
3. The maximum number of shares over which options may be granted under the Plan shall not exceed 10% of (i) the issued share capital of the Company from time to time or (ii) the issued share capital of the Company as at the date of adopting the Plan, whichever is the lower. As at 22 March 2006, the maximum number of shares available for issue under the Plan is 195,006,516, representing approximately 8.89% of the issued share capital.
4. No participant shall be granted an option which, if exercised in full, would result in such participant's maximum entitlement to exceed 25 per cent of the maximum aggregate number of shares subject to the Plan.
5. The exercise period of any option granted under the Plan must not be more than ten years commencing on the date of grant.
6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee.
7. The exercise price determined by the Board will be at least the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ('Stock Exchange') on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares.
8. The Plan shall be valid and effective till 30 May 2010.

Since adoption of the Plan, the Company have granted two lots of share options on 28 May 2002 and 1 November 2004 respectively. All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant. None of such options were cancelled, but options for 500,000 shares have lapsed during the year up to 31 December 2005.

A summary of the movements during the year ended 31 December 2005 of the share options granted, including those granted under the Plan, is as follows:

A. Directors of the Company

Name of director	Date of grant	Exercise price HK\$	Number of Share Options			Balance as at 31.12.05	Percentage of issued share capital %
			Balance as at 1.1.05	Granted during the year ended 31.12.05	Exercised during the year ended 31.12.05		
Larry Yung Chi Kin	28.5.02	18.2	2,000,000	–	–	2,000,000	4.743
	1.11.04	19.9	2,000,000	–	–	2,000,000	
	5.12.05	20.5	–	100,000,000 ¹	–	100,000,000	
						104,000,000	
Peter Lee Chung Hing	28.5.02	18.2	1,000,000	–	–	1,000,000	0.091
	1.11.04	19.9	1,000,000	–	–	1,000,000	
						2,000,000	
Norman Yuen Kee Tong	28.5.02	18.2	500,000	–	–	500,000	0.046
	1.11.04	19.9	500,000	–	–	500,000	
						1,000,000	
Vernon Francis Moore	28.5.02	18.2	1,000,000	–	–	1,000,000	0.091
	1.11.04	19.9	1,000,000	–	–	1,000,000	
						2,000,000	
Yao Jinrong	28.5.02	18.2	300,000	–	–	300,000	0.036
	1.11.04	19.9	500,000	–	–	500,000	
						800,000	
Chang Zhenming	28.5.02	18.2	500,000	–	–	N/A ²	N/A
Li Shilin	28.5.02	18.2	300,000	–	–	300,000	0.014
Carl Yung Ming Jie	28.5.02	18.2	300,000	–	–	300,000	0.036
	1.11.04	19.9	500,000	–	–	500,000	
						800,000	
Liu Jifu	28.5.02	18.2	300,000	–	–	300,000	0.036
	1.11.04	19.9	500,000	–	–	500,000	
						800,000	
Leslie Chang Li Hsien	28.5.02	18.2	300,000	–	–	300,000	0.036
	1.11.04	19.9	500,000	–	–	500,000	
						800,000	

Note:

1. These share options were granted by CITIC HK, a substantial shareholder of the Company, and can be exercised during the period from 5 December 2008 to 4 December 2010.

2. The Director has resigned with effect from 15 June 2005.

B. Employees of the Company working under continuous contracts (as defined in the Employment Ordinance), other than the Directors

Date of grant	Exercise price HK\$	Number of Share Options			
		Balance as at 1.1.05	Granted during the year ended 31.12.05	Exercised during the year ended 31.12.05 ³	Balance as at 31.12.05
28.5.02	18.2	2,770,000	–	670,000	2,100,000
1.11.04	19.9	4,380,000	–	110,000	4,270,000

Note:

3. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised is HK\$22.67.

C. Others⁴

Date of grant	Exercise price HK\$	Number of Share Options			
		Balance as at 1.1.05	Granted during the year ended 31.12.05	Exercised during the year ended 31.12.05 ⁵	Balance as at 31.12.05
28.5.02	18.2	800,000 ⁶	–	–	300,000
1.11.04	19.9	300,000	–	100,000	200,000

Note:

4. These are in respect of options granted to former director or employees under continuous contract, who have retired or resigned.

5. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised is HK\$21.55.

6. Out of 800,000 options, 500,000 options have lapsed during the year.

Directors' Interests in Securities

The interests of the directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ('sfo')) as at 31 December 2005 as recorded in the register required to be kept under section 352 of the sfo were as follows:

1. Shares in the Company and Associated Corporation

	Personal interests	Number of Shares			Percentage to the issued share capital %
		Corporate interests	Family interests	Trusts and similar interests	
CITIC Pacific Limited					
Larry Yung Chi Kin		400,381,000			18.258
Henry Fan Hung Ling		1,728,000		44,600,000	2.113
Peter Lee Chung Hing	500,000				0.023
Norman Yuen Kee Tong	33,000				0.002
Vernon Francis Moore				3,200,000	0.146
Liu Jifu	40,000				0.002
Leslie Chang Li Hsien	30,000				0.001
Hansen Loh Chung Hon	1,050,000	500,000 ¹	500,000 ¹		0.071
André Desmarais	1,488,000	102,242,000 ²	75,000		4.734
Peter Kruyt (alternate director to Mr André Desmarais)	34,100				0.002
Cathay Pacific Airways Limited					
Hansen Loh Chung Hon	450,000				0.013

Note:

1. The corporate interests and the family interests of the relevant director duplicate each other as the 500,000 shares are held through a company in which the relevant director and his family are interested.
2. Out of 102,242,000 shares, 2,012,000 shares are held by a corporation controlled by the relevant director and 100,230,000 shares are held indirectly by a corporation of which the relevant director is the President and Co-Chief Executive Officer.

2. Share Options in the Company

The interests of the directors in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are stated in detail in the preceding section of Share Option Plan.

Save as disclosed above, as at 31 December 2005, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the sfo, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the sfo or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party or parties 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

As at 31 December 2005, the interests of the substantial shareholders, other than the directors of the Company or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	Number of Shares of the Company	Percentage to the issued share capital %
CITIC Group	632,253,285	28.832
CITIC HK	632,253,285	28.832
Heedon Corporation	496,386,285	22.636
Honpville Corporation	310,988,221	14.181

CITIC HK is a substantial shareholder of the Company indirectly through the following wholly owned subsidiary companies:

Name of Subsidiary Companies of CITIC HK	Number of Shares of the Company	Percentage to the issued share capital %
Affluence Limited	43,266,000	1.973
Winton Corp.	30,718,000	1.401
Westminster Investment Inc.	101,960,000	4.650
Jetway Corp.	20,462,000	0.933
Cordia Corporation	32,258,064	1.471
Honpville Corporation	310,988,221	14.181
Hainsworth Limited	82,601,000	3.767
Southpoint Enterprises Inc.	10,000,000	0.456

Each of Affluence Limited, Winton Corp., Westminster Investment Inc., Jetway Corp., Cordia Corporation, Honpville Corporation, Hainsworth Limited and Southpoint Enterprises Inc. holds the shares of the Company beneficially. Accordingly, Honpville Corporation is a substantial shareholder of the Company.

CITIC Group is the direct holding company of CITIC HK. CITIC HK is the direct holding company of Heedon Corporation, Hainsworth Limited, Affluence Limited and Barnsley Investments Limited. Heedon Corporation is the direct holding company of Winton Corp., Westminster Investment Inc., Jetway Corp., Kotron Company Ltd. and Honpville Corporation and Kotron Company Ltd. is the direct holding company of Cordia Corporation. Barnsley Investments Limited is the direct holding company of Southpoint Enterprises Inc. Accordingly, the interests of CITIC Group in the Company duplicate the interests of CITIC HK in the Company. The interests of CITIC HK in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Heedon Corporation in the Company duplicate the interests in the Company of all its direct and indirect subsidiary companies as described above. The interests of Barnsley Investments Limited in the Company duplicate the interests in the Company of its direct subsidiary company as described above and the interests of Kotron Company Ltd. in the Company duplicate the interests in the Company of its direct subsidiary company as described above.

Share Capital

The Company has not redeemed any of its shares during the year ended 31 December 2005. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2005.

During the year ended 31 December 2005, the Company has issued 880,000 shares under the CITIC Pacific Share Incentive Plan 2000.

Service Contracts

As at 31 December 2005, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director proposed for re-election at the forthcoming Annual General Meeting.

Continuing Disclosure Requirements Under Rule 13.22 Of The Listing Rules

The proforma combine balance sheet of affiliated companies as required under Rule 13.22 of the Listing Rules is as follows (Affiliated companies include associated companies and jointly controlled entities).

Proforma combined balance sheet of affiliated companies

<i>in HK\$ million</i>	Group's attributable interest As at 31 December 2005
Fixed Assets	10,093
Jointly Controlled Entities	505
Investments	83
Intangible Assets	20
Pension Assets	24
Deferred Expenses	22
Long Term Receivable	2,006
Net Current Assets	972
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Total Assets Less Current Liabilities	13,725
Long Term Borrowings	(1,229)
Deferred Tax Liabilities	(732)
Loans from Shareholders	(7,209)
	4,555

Note:

Details of attributable interest of the Company and/or its subsidiary company in the affiliated companies as disclosed in Notes to the Accounts no. 35 of Financial Statements.

Auditors

The accounts for the year have been audited by PricewaterhouseCoopers who shall retire and, being eligible, shall offer themselves for re-appointment.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2005.

By Order of the Board,
Larry Yung Chi Kin *Chairman*
 Hong Kong, 22 March 2006