



Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associate and jointly controlled entity are set out in notes 59, 24 and 23 to the financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Group at that date are set out in the financial statements on pages 45 to 137.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on pages 139 and 140 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 17 to the financial statements.

Particulars of the major investment properties of the Group as at the balance sheet date are set out on page 138 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

Particulars of the major property of the Group as at the balance sheet date are set out on page 138 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 47 to the financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 48 of this annual report.



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DIRECTORS

The directors of the Company during the year were as follows:

Wang Qinghai

Cao Zhong

Chen Zheng

Wang Tian

Cheng Xiaoyu

Yuan Wenxin (appointed on 5 August 2005)

Leung Shun Sang, Tony

Choy Hok Man, Constance

Tam King Ching, Kenny*

Hui Hung, Stephen*

Zhou Jianhong*

* *Independent non-executive directors*

Subsequent to the balance sheet date, on 27 February, 2006, Mr. Liu Wei was appointed as an independent non-executive director of the Company. On the same date, Mr. Hui Hung, Stephen resigned as an independent non-executive director of the Company.

In accordance with clauses 99(A) and 102(B) of the Company's Bye-laws, Mr. Yuan Wenxin, Mr. Leung Shun Sang, Tony, Mr. Tam King Ching, Kenny and Mr. Liu Wei will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In order to comply with the second part of code provision A.4.2 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Mr. Wang Qinghai, being the Company's Chairman, will retire voluntarily and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

Ms. Choy Hok Man, Constance will also retire voluntarily but will not offer herself for re-election at the forthcoming annual general meeting of the Company. It is not intended to fill up Ms. Choy's vacated office at the forthcoming annual general meeting of the Company.

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.



Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors of the Company who held office at 31 December 2005 had the following interests in the shares and underlying shares of the Company at the balance sheet date as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

Long positions in the shares and underlying shares of the Company

Name of director	Capacity in which interests are held	Number of shares/ underlying shares held in the Company		Total interests as to % to the issued share capital as at 31.12.2005	
		Interests in shares	Interests under equity derivatives*	Total interests	
Wang Qinghai	Beneficial owner	8,278,679	–	8,278,679	0.73%
Cao Zhong	Beneficial owner	8,278,679	–	8,278,679	0.73%
Cheng Xiaoyu	Beneficial owner	8,278,679	–	8,278,679	0.73%
Yuan Wenxin	Beneficial owner	4,920,000	–	4,920,000	0.43%
Leung Shun Sang, Tony	Beneficial owner	8,278,000	679	8,278,679	0.73%
Choy Hok Man, Constance	Beneficial owner	400,000	–	400,000	0.04%

* Unlisted cash settled options were granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.01 each in the share capital of the Company are issuable. The share options are personal to the respective directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.

Save as disclosed above, as at the balance sheet date, none of the Company's directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following directors have declared interests in the following businesses (other than those businesses where the directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the director in the entity
Wang Qinghai	Shougang Corporation [#]	Property investment	Director
Cao Zhong	China Shougang International Trade and Engineering Corporation [#]	Property investment	Director

[#] Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.

The board of directors of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its independent non-executive directors whose views carry significant weight in the board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.



Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	% to the total issued share capital of the Company as at 31.12.2005	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	465,753,673	40.97%	1
Wheeling Holdings Limited ("Wheeling")	Beneficial owner	430,491,315	37.87%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	133,048,717	11.70%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	91,491,193	8.05%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	133,048,717	11.70%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	133,048,717	11.70%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	133,048,717	11.70%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	133,048,717	11.70%	3



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INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares of the Company (continued)

Notes:

1. Wheeling was a wholly-owned subsidiary of Shougang Holding and its interest was included in the interests held by Shougang Holding.
2. Max Same was a wholly-owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong.
3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this report.



Report of the Directors

SHARE OPTION SCHEMES

Share option scheme of the Company

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the Scheme, the directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of the associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the directors, will contribute or have contributed to the Company or any of its subsidiaries or any of the associated companies, share options to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all outstanding share options granted under the Scheme is 1,330,679 which represents approximately 0.12% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares available for issue upon exercise of all share options which may be granted under the Scheme is 93,931,666, representing approximately 8.26% of the issued share capital of the Company as at the date of this annual report. The total number of shares issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK\$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share option scheme of the Company (continued)

The period during which a share option may be exercised will be determined by the directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share option scheme of the Company (continued)

Details of movement in the share options under the Scheme during the year were as follows:

Category or name of grantees	Options to subscribe for shares of the Company					Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Transferred from other category during the year	Transferred to other category during the year	Cancelled during the year	At the end of the year			
Directors of the Company								
Cao Zhong	21,447,000	-	-	(21,447,000) ¹	-	08.06.2004	08.06.2004–07.06.2014	HK\$0.82
Chen Zheng	18,015,000	-	-	(18,015,000) ¹	-	08.06.2004	08.06.2004–07.06.2014	HK\$0.82
Wang Tian	16,299,000	-	-	(16,299,000) ¹	-	08.06.2004	08.06.2004–07.06.2014	HK\$0.82
Chen Xiaoyu	15,441,000	-	-	(15,441,000) ¹	-	08.06.2004	08.06.2004–07.06.2014	HK\$0.82
	71,202,000	-	-	(71,202,000)	-			
Leung Shun Sang, Tony	75	-	-	-	75	23.08.2002	23.08.2002–06.06.2012	HK\$0.73
	604	-	-	-	604	06.03.2003	06.03.2003–05.03.2013	HK\$0.76
	679	-	-	-	679			
	71,202,679	-	-	(71,202,000)	679			
Employees of the Group								
	1,330,000	-	-	-	1,330,000	6.03.2003	06.03.2003–05.03.2013	HK\$0.76
	14,584,000	-	(14,584,000) ²	-	-	08.06.2004	08.06.2004–07.06.2014	HK\$0.82
	15,914,000	-	(14,584,000)	-	1,330,000			
Other participant with options granted in excess of limit								
Chen Jianyong	-	14,584,000 ²	-	(14,584,000) ¹	-	08.06.2004	08.06.2004–07.06.2014	HK\$0.82
	87,116,679	14,584,000	(14,584,000)	(85,786,000)	1,330,679			



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share option scheme of the Company (continued)

Notes:

1. The number of share options granted to Mr. Cao Zhong, Mr. Chen Zheng, Mr. Wang Tian, Ms. Cheng Xiaoyu and Mr. Chen Jianyong on 8 June 2004 each exceeded the individual limit of 1% of the shares of the Company then in issue and were approved by the shareholders of the Company on the same day. Such share options are subject to the following restrictions:
 - (i) up to 40%, 70% and the balance of the share options will be exercisable from the 13th, the 25th and the 37th month respectively after the date of offer of grant; and
 - (ii) shares allotted upon exercise of those share options may not be sold within 90 days from their relevant allotment dates.

With the consent of the relevant grantees, all such share options were cancelled in accordance with the Scheme during the year.

2. The share options were held by Chen Jianyong who ceased to be an employee of the Company during the year. Such share options remained exercisable up to the original expiry date and were re-classified from the category of "Employees of the Group" to "Other participant with options granted in excess of limit" during the year.

Save as disclosed above, no share option was granted, exercised or lapsed in accordance with the terms of the Scheme during the year.

Share option scheme of a subsidiary of the Company – Global Digital Creations Holdings Limited

Global Digital Creations Holdings Limited ("GDC"), a non wholly-owned subsidiary of the Company, has approved a share option scheme (the "GDC Scheme") by a shareholders' resolution passed at its special general meeting held on 18 July 2003.

The principal purpose of the GDC Scheme is to enable GDC to grant options to eligible participants as rewards for their contributions to GDC and its subsidiaries (the "GDC Group"). The GDC Scheme will expire on 17 July 2013.



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share option scheme of a subsidiary of the Company – Global Digital Creations Holdings Limited (continued)

Under the terms of GDC Scheme, the board of directors of GDC (the “GDC Board”) may grant options to all full-time employees, directors (including independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above, of the GDC Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, joint venture partners, service provider to the GDC Group who the GDC Board considers, in its sole discretion, have contributed or contribution to the GDC Group.

The maximum number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the GDC Scheme is not permitted to exceed 10% of the shares of GDC in issue which can be refreshed according to the GDC Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the GDC Scheme and any other share option schemes of GDC shall not exceed 30% of the issued share capital of GDC from time to time.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of GDC in issue at any point in time, without prior approval from the shareholders of GDC in accordance with the GDC Scheme. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares in GDC issued and to be issued upon exercise of all options to such person in the 12-month period up to and including the date of grant in excess of 0.1% of the shares of GDC in issue and with a value (based on the closing price of the shares of GDC at the offer date of each offer) in excess of HK\$5,000,000, such grant of options must be approved in advance by the shareholders of GDC in accordance with the GDC Scheme.

An option may be exercised at any time during the period to be determined and notified by the directors of GDC to the grantee and in the absence of such determination, from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses according to the GDC Scheme and ten years from the date of offer of that option. A consideration of HK\$1 is payable upon acceptance the offer.

The exercise price is determined by the directors of GDC, and will not be less than the higher of the nominal value of GDC’s share; the closing price of GDC’s shares on the date of offer; and the average closing price of GDC’s shares for the five business days immediately preceding the date of offer.



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share option scheme of a subsidiary of the Company – Global Digital Creations Holdings Limited (continued)

No share option under the GDC Scheme was outstanding as at the completion date of voluntary conditional share exchange offer made by the Group for the shares of GDC, and no share option to subscribe for shares of GDC was granted by virtue of the GDC Scheme since the acquisition of interest in GDC by the Company and up to 31 December 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

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 its existing shareholders.

DISTRIBUTION RESERVES

At the balance sheet date, the Company had no reserves available for distribution. In addition, under the laws of Bermuda, the Company's share premium account, in the amount of HK\$417,690,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31% of the turnover for the year and the largest customer included therein amounted to 9%. Purchases from the Group's five largest suppliers accounted for 6% of the cost of sales for the year. Save as disclosed above, 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 share capital) had any beneficial interest in the Group's five largest customers and suppliers.



Report of the Directors

CONNECTED TRANSACTIONS

I. Connected transaction during the year

As stated in the announcement dated 17 January 2005, a tenancy agreement dated 17 January 2005 was entered into whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,412 square feet was leased by Winluck Properties Limited (“Winluck”), an indirect wholly-owned subsidiary of Shougang Holding which is a substantial shareholder of the Company, to Long Cosmos Investment Limited (“Long Cosmos”), an indirect wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2005 at a monthly rental of HK\$96,180, exclusive of rates and other charges. This office premises was used by the Group as office.

II. Connected transactions subsequent to the balance sheet date

As stated in the announcement dated 3 January 2006, the following tenancy agreements were entered into or renewed:

- (a) a tenancy agreement dated 3 January 2006 whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,412 square feet was leased by Winluck to Long Cosmos for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$115,400, exclusive of rates and other charges. This office premises was used by the Group as office; and
- (b) a tenancy agreement dated 3 January 2006 whereby Flat 1612, Block Q, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 756 square feet was leased by Linksky Limited, an indirect wholly-owned subsidiary of the Company, to Gold Real Limited (“Gold Regal”), a direct wholly-owned subsidiary of Shougang Concord Century Holdings Limited which is an associate of Shougang Holding, for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$10,800, exclusive of rates and other charges. This residential premises was used by the senior executive of the Group as quarter.



Report of the Directors

CONNECTED TRANSACTIONS *(continued)*

Save as aforesaid and as far as the transactions which took place in the year under review are concerned, the transactions as set out in notes 58(a) and (b) to the financial statements under the heading of "Related Party Transactions" were connected transactions which have been previously announced in newspapers by the Company and the transactions as set out in notes 58(c), (d) and (e) were connected transactions or incidental to the connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The remaining transactions as set out under the heading of "Related Party Transactions" did not constitute connected transactions.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 17 to 28 of this annual report.

AUDITORS

Messrs. Deloitte Touche Tohmatsu was appointed as auditors of the Company in place of Messrs. Ernst & Young upon their retirement at the annual general meeting of the Company held on 25 June 2003. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By Order of the Board

Cao Zhong

Vice Chairman and Managing Director

Hong Kong, 20 April 2006