



Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

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. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2005 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 48 to 141.

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

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, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 142. The summary does not form part of the audited financial statements.

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements, respectively.

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 33(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, 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 2005, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$123,000 (2004: HK\$672,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 40.0% of the total sales for the year and sales to the largest customer included therein amounted to 17.7%. Purchases from the Group's five largest suppliers accounted for 34.9% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15.7%.

The Group's largest customer for the year ended 31 December 2005 was CITIC Metal Company Limited, a company incorporated in the People's Republic of China (the "PRC") and wholly owned by CITIC Group, the ultimate holding company of the Company.

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MAJOR CUSTOMERS AND MAJOR SUPPLIERS (cont'd)

Save as aforesaid, 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 are as follows:

Executive directors:

Mr. Kwok Peter Viem

Mr. Ma Ting Hung

Mr. Shou Xuancheng (appointed on 1 September 2005)

Mr. Sun Xinguo

Ms. Li So Mui

Mr. Mi Zengxin

Mr. Qiu Yiyong

Mr. Zeng Chen

Mr. Zhang Jijing

Independent non-executive directors:

Mr. Chan Mo Po, Paul (resigned on 1 October 2005)

Mr. Fan Ren Da, Anthony

Mr. Ngai Man (appointed on 1 March 2006)

Mr. Tsang Link Carl, Brian

The independent non-executive directors are not appointed for a specific term and all of the directors, including 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. Shou Xuancheng and Mr. Ngai Man will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-laws 87(1) and 87(2) of the Company's bye-laws, Mr. Ma Ting Hung; Mr. Sun Xinguo; Ms. Li So Mui and Mr. Fan Ren Da, Anthony will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and as at the date of this report still considers them to be independent.

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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 IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the interests of the directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") and which have been notified to the Company and the Stock Exchange were as follows:

Interests in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of ordinary shares of HK\$0.05 each held	Interests in underlying shares pursuant to share options	Percentage of the total issued share capital of the Company
Mr. Kwok Peter Viem	Corporate	572,966,000 (Note)	–	13.27
Mr. Kwok Peter Viem	Directly beneficially owned	–	50,000,000	1.16
Mr. Ma Ting Hung	Corporate	572,966,000 (Note)	–	13.27
Mr. Ma Ting Hung	Directly beneficially owned	–	50,000,000	1.16
Mr. Shou Xuancheng	Directly beneficially owned	–	10,000,000	0.23
Mr. Sun Xinguo	Directly beneficially owned	–	10,000,000	0.23
Ms. Li So Mui	Directly beneficially owned	–	5,000,000	0.12
Mr. Mi Zengxin	Directly beneficially owned	–	10,000,000	0.23
Mr. Qiu Yiyong	Directly beneficially owned	–	10,000,000	0.23
Mr. Zeng Chen	Directly beneficially owned	–	10,000,000	0.23
Mr. Zhang Jijing	Family	28,000	–	–
Mr. Zhang Jijing	Directly beneficially owned	–	10,000,000	0.23

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 Peter Viem and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in the 572,966,000 shares.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

Interests in ordinary shares and underlying shares of 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	Nature of interest	Exercise period of share option	Exercise price per share A\$	Percentage of the total issued share capital of the associated corporation
Mr. Zeng Chen	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	333,332	Family	N/A	N/A	0.40
			Share options	166,668	Directly beneficially owned	19 June 2005 to 18 June 2007	0.35	N/A
Mr. Zhang Jijing	CITIC Australia Trading Limited	Subsidiary	Share options	200,000	Directly beneficially owned	19 June 2005 to 18 June 2007	0.35	N/A

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.

Save as disclosed herein and so far as is known to the directors:

- (i) as at 31 December 2005, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;
- (ii) as at 31 December 2005, none of the directors was a director or employee of a company which has an interest or a short position in the shares or 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;
- (iii) as at 31 December 2005, none of the directors or their associates was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group taken as a whole; and
- (iv) as at 31 December 2005, none of the directors or their associates had any interests in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests in shares and underlying shares" above and in the share option scheme disclosures in note 32 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 IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, 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 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:

The Company

Name of shareholder	Nature of interest	Number of ordinary shares of HK\$0.05 each held	Interests in underlying shares pursuant to share options	Percentage of the total issued share capital of the Company
CITIC Group	Corporate	2,610,594,381 ⁽¹⁾	–	60.47
CITIC Projects Management (HK) Limited	Corporate	1,860,180,588 ⁽²⁾	–	43.09
Keentech Group Limited	Corporate	1,860,180,588 ⁽³⁾	–	43.09
CITIC Australia Pty Limited	Corporate	750,413,793 ⁽⁴⁾	–	17.38
United Star International Inc.	Corporate	572,966,000 ⁽⁵⁾	–	13.27
Mr. Kwok Peter Viem	Corporate	572,966,000 ⁽⁵⁾	50,000,000 ⁽⁶⁾	14.43
Mr. Ma Ting Hung	Corporate	572,966,000 ⁽⁵⁾	50,000,000 ⁽⁶⁾	14.43

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

The Company (cont'd)

Notes:

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

Other members of the Group

Name of shareholder	Name of subsidiary	Percentage of issued share capital
CITIC United Asia Investments Limited ⁽¹⁾	CITIC Dameng Holdings Limited	20

Note:

- (1) CITIC United Asia Investments Limited is an indirect wholly-owned subsidiary of CITIC Group.

Save as disclosed herein and so far as is known to the directors, as at 31 December 2005, 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, SALE AND REDEMPTION OF SHARES

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

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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 38 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
- (iii) in accordance with the relevant agreements governing such ongoing connected transactions, on terms that are fair and reasonable and in the interests of 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 38 to the financial statements.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 40 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

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AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules 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.

The audit committee has reviewed this annual report with the management 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

Kwok Peter Viem

Chairman

Hong Kong, 21 April 2006