



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 entities are set out in notes 20, 21 and 22 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 42 to 118.

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 119 to 120 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.

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.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 37 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 46 of this annual report and in note 39 to the financial statements, respectively.



Report of the Directors

DIRECTORS

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

Cao Zhong
Zhang Wenhui
Tzu San Te
Tse Chun Sing
Chen Jang Fung
Leung Shun Sang, Tony
Chan Wah Tip, Michael
Choy Hok Man, Constance
Kan Lai Kuen, Alice*
Kwan Bo Ren, Dick*
Wong Kun Kim*
Luo Zhenyu (resigned on 12 January 2005)
Yuan Wenxin (resigned on 5 August 2005)

* *Independent non-executive directors*

In accordance with clause 103(A) of the Company's articles of association, Mr. Cao Zhong, Mr. Chen Jang Fung, Mr. Leung Shun Sang, Tony and Ms. Choy Hok Man, Constance will retire and, being eligible, Messrs. Cao Zhong, Chen Jang Fung and Leung Shun Sang, Tony will offer themselves for re-election at the forthcoming annual general meeting of the Company. However, Ms. Choy Hok Man, Constance will not offer herself for re-election.

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' 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 Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):



Report of the Directors

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

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	
Cao Zhong	Beneficial owner	3,270,078	8,026,000	11,296,078	0.94%
Tse Chun Sing	Beneficial owner	–	1,000,000	1,000,000	0.08%
Leung Shun Sang, Tony	Beneficial owner	3,269,810	8,016,000	11,285,810	0.94%
Chan Wah Tip, Michael	Beneficial owner	–	400,000	400,000	0.03%
Choy Hok Man, Constance	Beneficial owner	558,000	–	558,000	0.05%

* 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\$0.25 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, 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.

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.



Report of the Directors

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

During the year, no director has been recorded as having interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

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 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 and underlying shares of the Company

Name of shareholder	Capacity in which interest 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")	Beneficial owner, interests of controlled corporations	491,865,020	41.02%	1
Asset Resort Holdings Limited ("Asset Resort")	Beneficial owner	231,515,151	19.31%	1
Wheeling Holdings Limited ("Wheeling")	Beneficial owner, interests of controlled corporations	170,544,069	14.22%	1
Prime Success Investments Limited ("Prime Success")	Beneficial owner	89,805,800	7.49%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	124,069,394	10.35%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	107,654,173	8.98%	2



Report of the Directors

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

Long positions in the shares and underlying shares of the Company (continued)

Name of shareholder	Capacity in which interest 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)
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	124,069,394	10.35%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	124,069,394	10.35%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	124,069,394	10.35%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	124,069,394	10.35%	3

Notes:

1. Asset Resort, Wheeling and Prime Success all were wholly-owned subsidiaries of Shougang Holding and their respective interests were 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.



Report of the Directors

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

Long positions in the shares and underlying shares of the Company (continued)

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 is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this report.

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 its 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 its 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 90,547,000 which represents 5.27% 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 103,388,358, representing 6.03% 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



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share Option Scheme of the Company (continued)

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.

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 movements 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				At the end of the year	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				
Directors of the Company								
Cao Zhong	8,026,000	-	-	-	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	32,106,000	-	-	(32,106,000) ¹	-	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
	<u>40,132,000</u>	<u>-</u>	<u>-</u>	<u>(32,106,000)</u>	<u>8,026,000</u>			
Tzu San Te	9,632,000	-	-	(9,632,000) ¹	-	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
Tse Chun Sing	1,000,000	-	-	-	1,000,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	10,434,000	-	-	(10,434,000) ¹	-	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
	<u>11,434,000</u>	<u>-</u>	<u>-</u>	<u>(10,434,000)</u>	<u>1,000,000</u>			
Leung Shun Sang, Tony	4,816,000	-	-	-	4,816,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	3,200,000	-	-	-	3,200,000	14.03.2003	14.03.2003 – 13.03.2013	HK\$0.495
	<u>8,016,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,016,000</u>			
Chan Wah Tip, Michael	400,000	-	-	-	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
Luo Zhenyu	6,043,000	-	(6,043,000) ²	-	-	14.03.2003	14.03.2003 – 13.03.2013	HK\$0.495
	12,040,000	-	(12,040,000) ²	-	-	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
	<u>18,083,000</u>	<u>-</u>	<u>(18,083,000)</u>	<u>-</u>	<u>-</u>			
Yuan Wenxin	11,982,000	-	(11,982,000) ³	-	-	18.03.2004	18.03.2004 – 17.03.2014	HK\$1.200
	<u>99,679,000</u>	<u>-</u>	<u>(30,065,000)</u>	<u>(52,172,000)</u>	<u>17,442,000</u>			



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share Option Scheme of the Company (continued)

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			
Other individuals with options granted in excess of limit								
Luo Zhenyu	-	6,043,000 ²	-	-	6,043,000	14.03.2003	14.03.2003 – 13.03.2013	HK\$0.495
	-	12,040,000 ²	-	(12,040,000) ¹	-	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
	-	18,083,000	-	(12,040,000)	6,043,000			
Yu Jian	8,026,000	-	-	-	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	16,052,000	-	-	(16,052,000) ¹	-	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
	24,078,000	-	-	(16,052,000)	8,026,000			
	24,078,000	18,083,000	-	(28,092,000)	14,069,000			
Employees of the Group	2,922,000	-	-	-	2,922,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	2,000	-	-	-	2,000	14.03.2003	14.03.2003 – 13.03.2013	HK\$0.495
	2,924,000	-	-	-	2,924,000			
Other participants	-	11,982,000 ³	-	-	11,982,000	18.03.2004	18.03.2004 – 17.03.2014	HK\$1.200
	32,104,000	-	-	-	32,104,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	8,026,000	-	-	-	8,026,000	14.03.2003	14.03.2003 – 13.03.2013	HK\$0.495
	4,000,000	-	-	-	4,000,000	18.03.2004	18.03.2004 – 17.03.2014	HK\$1.200
	44,130,000	11,982,000	-	-	56,112,000			
	<u>170,811,000</u>	<u>30,065,000</u>	<u>(30,065,000)</u>	<u>(80,264,000)</u>	<u>90,547,000</u>			



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. Luo Zhenyu, Mr. Tzu San Te, Mr. Tse Chun Sing and Mr. Yu Jian on 13 October 2003 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 a vesting scale which shall commence on the date of grant in tranches of 25% each year reaching 100% from 13 October 2006. 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 Mr. Luo Zhenyu who ceased to be a director of the Company during the year. Such share options remained exercisable up to the original respective expiry dates and were re-classified from the category of "Directors of the Company" to "Other individuals with options granted in excess of limit" during the year.
3. The share options were held by Mr. Yuan Wenxin who ceased to be a director of the Company during the year. Such share options remain exercisable up to the original expiry date and were re-classified from the category of "Directors of the Company" to "Other participants" 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 – Remarkable Mask Technology Company Limited

Remarkable Mask Technology Company Limited ("Remarkable"), an indirect wholly-owned subsidiary of the Company, has approved a share option scheme (the "Remarkable Scheme") by a shareholder's resolution passed on 10 May 2004. The Remarkable Scheme was subject to the approval of the shareholders of the Company and has become effective on 8 June 2004 as a result of the passing of an ordinary resolution approving the same by the shareholders of the Company at its extraordinary general meeting held on the same day.

The purpose of the Remarkable Scheme is to enable Remarkable to grant share options to selected participants as incentives or rewards for their contribution to Remarkable or its subsidiaries or its associated companies. The Remarkable Scheme will remain in force for a period of 10 years commencing on 8 June 2004, being the date on which the Remarkable Scheme was approved by the shareholders of the Company, to 7 June 2014.



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share option scheme of a subsidiary of the Company – Remarkable Mask Technology Company Limited (continued)

Under the Remarkable Scheme, the directors of Remarkable may, at their absolute discretion, offer directors or proposed directors (including executive, non-executive or independent non-executive directors), employees or proposed employees (whether full-time or part-time), suppliers and customers of Remarkable or any of its subsidiaries or any of its associated companies, persons or entities that provide consultancy, advices, research, development or other technological support to Remarkable or any of its subsidiaries or any of its associated companies, partners or business associates and shareholders of Remarkable or any of its subsidiaries or any of its associated companies or holders of any securities issued by Remarkable or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of Remarkable, provided always that such determination shall be subject to the approval of the directors of the Company or any committee duly constituted thereof. Any person who is proposed to be a grantee and who happens to be also a director of the Company shall abstain from voting on any resolution in respect of such approval.

No share option to subscribe for shares of Remarkable was granted by virtue of the Remarkable Scheme during the year.

The total number of shares available for issue upon exercise of all share options which may be granted under the Remarkable Scheme is 3,300,000, representing 7.33% of the issued share capital of Remarkable 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 Remarkable Scheme (including both exercised 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 Remarkable as at the date of grant. Any further grant of share options in excess of this limit is subject to the approval of shareholders of the Company in a general meeting with such grantees and their associates (as defined in the Listing Rules) abstaining from voting. Share options granted to directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive directors who are the grantees). In addition, any share options granted to substantial shareholders or independent non-executive directors of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of Remarkable in issue (based on the date of offer) and an aggregate value of HK\$5 million (based on the closing price of the shares of Remarkable at the date of each offer), within any 12-month period, are subject to the approval of shareholders of the Company in advance in a general meeting in which all connected persons (as defined in the Listing Rules) of the Company must abstain from voting.



Report of the Directors

SHARE OPTION SCHEMES (continued)

Share option scheme of a subsidiary of the Company – Remarkable Mask Technology Company Limited (continued)

The period during which a share option may be exercised will be determined by the directors of Remarkable at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Remarkable 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 Remarkable are empowered to impose at their discretion any such minimum period at the time of grant of any share options, provided always that such conditions shall be subject to the approval of the directors of the Company or any committee duly constituted thereof.

The exercise price in relation to each share option will be determined by the directors of Remarkable at their discretion and shall not be less than the nominal value of the shares of Remarkable and shall be subject to the approval of the directors of the Company or any committee duly constituted thereof. The exercise price in respect of each share option granted after the Company has contemplated a separate listing of Remarkable on the main board or the Growth Enterprise Market (“GEM”) of the Stock Exchange or an overseas stock exchange and up to the listing date of Remarkable must be not lower than the new issue price (if any) of the shares of Remarkable. In the event that Remarkable is separately listed on the main board or the GEM of the Stock Exchange or an overseas stock exchange, the Remarkable Scheme will continue to have effect pursuant to the terms thereof and the exercise price of each share option in respect of an offer made after such listing shall be at least the higher of (i) the closing price of shares of Remarkable as stated in the stock exchange’s daily quotations on the date of offer of share options; (ii) the average closing price of shares of Remarkable as stated in the stock exchange’s daily quotations for the five business days immediately preceding the date of offer of share options (and for the purpose of calculating the exercise price where Remarkable has been listed for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing); and (iii) the nominal value of the shares of Remarkable.

Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the Remarkable Scheme. The offer of a grant of share options must be accepted within 28 days from the date of the offer. Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

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.



Report of the Directors

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company did not have any reserves available for distribution as calculated in accordance with provisions of Section 79B of the Companies Ordinance.

The Company's capital reserve represents a non-distributable reserve.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the largest one and five largest customers accounted for 10.72% and 27.31% respectively of the total sales for the year. Business from the largest one and five largest suppliers accounted for 10.93% and 21.61% respectively of the total purchases for the year.

CONNECTED TRANSACTIONS

The following connected transactions were recorded during the year and up to the date of this annual report:

1. **Continuing connected transactions during the year**

As stated in the announcement of the Company dated 4 May 2004, Santai Manufacturing Limited ("Santai Manufacturing"), a wholly-owned subsidiary of the Company, would in the ordinary course of business purchase copper sheets and brass sheets on a continuing basis from Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong") and Meta International Limited ("Meta International"), both wholly-owned subsidiaries of Shougang Concord Century Holdings Limited which was an associate of Shougang Holding, the controlling shareholder of the Company. As it was forecasted that the aggregate amount of such transactions would not exceed the higher of either HK\$10,000,000 or 2.5% of each of the percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules, such transactions would constitute continuing connected transactions of the Company under Rule 14A.34 of the Listing Rules and would be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The abovesaid transactions which took place during the year under review were entered into in the ordinary and usual course of business of Santai Manufacturing and were conducted on normal commercial terms. Such continuing connected transactions could facilitate the operations of the companies concerned and are fair and reasonable so far as the shareholders of the respective companies as a whole. Details of such transactions for the financial year ended 31 December 2005 are set out in note 46(a)(x) to the financial statements under the heading "Related Party Transactions".



Report of the Directors

CONNECTED TRANSACTIONS (continued)

2. Connected transactions subsequent to the balance sheet date

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

- (a) a tenancy agreement dated 3 January 2006 whereby Flat 3303A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area of approximately 545 square feet was leased by Shougang Holding to Santai Corporate Services Limited (“Santai Services”), a direct wholly-owned subsidiary of the Company for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$8,600, exclusive of rates and other charges. This residential premises was used by the senior executive of the Group as quarter; and
- (b) a tenancy agreement dated 3 January 2006 whereby Workshops 4, 5, 8, 9 and 15-18, 10th Floor, Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong with an aggregate gross floor area of approximately 15,335 square feet was leased by Good News Investment Limited, an indirect wholly-owned subsidiary of Shougang Concord International Enterprises Company Limited which is a connected person of the Company by virtue of it being an associate of Shougang Holding, to Santai Services for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$76,000, exclusive of rates and other charges. This office premises was used by the Group as office.

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 46(a)(i) to 46(a)(v) to the financial statements under the heading “Related Party Transactions” were connected transactions or incidental to the connected transactions which were exempt from any disclosure and shareholders’ approval requirement under the Listing Rules. The transactions as set out in notes 46(a)(vi) to 46(a)(ix) and 46(a)(xi) to the financial statements under the heading “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 15 to 25 of this annual report.



Report of the Directors

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 47 to the financial statements.

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

Chairman

Hong Kong, 20 April 2006