

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 29 and 15 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 36.

The Directors do not recommend the payment of a dividend.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2005.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 24 to the financial statements.

EMOLUMENT POLICY

The emoluments of the Directors of the Company are determined by the Shareholders at the annual general meeting of the Company with reference to comparable market statistics.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Directors' Report (continued)

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Dr. FU Yuning (*Chairman*)

Dr. HUANG Dazhan

Mr. CHU Lap Lik, Victor

Mr. XIE Kuixing (appointed on 26 September 2005)

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

(*alternate to Mr. CHU Lap Lik, Victor*)

Ms. ZHOU Linda L. (resigned on 26 September 2005)

Non-executive Directors

Dr. The Hon. David LI Kwok-po*

Mr. KUT Ying Hay*

Dr. POON Kwok Lim, Steven*

Mr. WANG Xingdong

Mr. GONG Jianzhong

Mr. LI Kai Cheong, Samson

(*alternate to Dr. The Hon. David LI Kwok-po**)

Mr. MOK Hay Hoi (appointed on 29 June 2005)

(*alternate to Dr. POON Kwok Lim, Steven**)

Mr. HIEW Yoon Khong (resigned on 26 September 2005)

Mr. TAN Cheong Hin (resigned on 26 September 2005)

(*alternate to Mr. HIEW Yoon Khong*)

Mr. PHOON Siew Heng (appointed on 26 September 2005 and
resigned on 20 April 2006)

Mr. TAN Cheong Hin (appointed on 26 September 2005 and
resigned on 20 April 2006)

* *Independent Non-executive Directors*

In accordance with Article 101 and Article 105 of the Company's Articles of Association, Dr. Fu Yuning, Dr. Huang Dazhan, Mr. Xie Kuixing, Mr. Tse Yue Kit, Mr. Wang Xingdong and Mr. Gong Jianzhong, retire and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-executive Directors as regards their independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

Directors' Report (continued)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors:



Dr. FU Yuning, aged 49, is the Chairman of the Company and has been an Executive Director of the Company since January 1999. He concurrently acts as a Director and the President of China Merchants Group Limited, and the Chairman of China Merchants Finance Holdings Company Limited. He is also the Chairman and Managing Director of China Merchants Holdings (International) Company Limited and an Independent Non-executive Director of Integrated Distribution Services Group Limited and Sino Land Company Limited, all of which are publicly listed on the Hong Kong Stock Exchange. China Merchants Group Limited is a substantial shareholder of the Company. Dr. Fu is also the Chairman of the Executive Committee for the Board of Directors of China Merchants Bank Company, Limited. Besides, Dr. Fu serves as a Director of Hong Kong General Chamber of Commerce and Hong Kong Port Development Council. Dr. Fu graduated from Dalian Institute of Technology of China with a degree in Port and Waterway Engineering. He obtained a doctorate degree in Offshore Engineering at the Brunel University of the United Kingdom where he also worked as a post-doctorate research fellow.



Dr. HUANG Dazhan, aged 48, has been an Executive Director of the Company since March 1999. He is also the Chairman of China Merchants China Investment Management Limited (the "Investment Manager"). Dr. Huang is the Financial Adviser of China Merchants Group Limited, the Managing Director of China Merchants Finance Holdings Company Limited, a Director of China Merchants Holdings (Hong Kong) Company Limited, China Merchants Bank Company, Limited, China Merchants Securities Company, Limited and China Credit Trust Company, Limited. Concurrently, he also holds a number of chairmanships in various other companies which are controlled by the China Merchants Group or in which the China Merchants Group has an interest including China Merchants Holdings (UK) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Finance Investment Holdings Company Limited. China Merchants Group Limited is a substantial shareholder of the Company. He is also a Director of a subsidiary of the Company. Dr. Huang graduated from Dalian Institute of Technology of China in 1982. In 1988, he was selected by the State Education Commission of China to go to the UK for further studies and was conferred by the University of Manchester a master degree in Economics and followed by a doctorate degree in the same field, and worked as a post-doctorate research fellow.

Directors' Report (continued)



Mr. CHU Lap Lik, Victor, aged 48, has been an Executive Director of the Company since June 1993 and holds directorship in a subsidiary of the Company. Mr. Chu is a Director of China Bright Holdings Limited which is a substantial shareholder of the Company. He is also a Director of the Investment Manager. Mr. Chu is a practising solicitor in Hong Kong and is senior partner of Victor Chu & Co. He is also the Chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. Mr. Chu has served on the Central Policy Unit of the Hong Kong Government, the Council of the Hong Kong Stock Exchange, the Takeover and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. Chu is a Foundation Board Member of the World Economic Forum and Chairman of the ICC Commission on Financial Services and Insurance. Mr. Chu took his law degree at University College, London.



Mr. XIE Kuixing, aged 41, was appointed as an Executive Director of the Company on 26 September 2005. He is currently the Managing Director of the Investment Manager. Prior to joining the Investment Manager, he worked with China Merchants Securities Company, Limited, where he held senior posts in various divisions for 13 years. He is also a Director of certain subsidiaries of the Company. Mr. Xie has extensive experience in securities business, corporate finance, risk management as well as investment. Mr. Xie obtained his bachelor degree in Economics from the Hunan Institute of Finance & Economics and master degree in Economics from the Dongbei University of Finance & Economics. Mr. Xie once gave his finance lecture at the Zhongnan University of Finance & Economics.



Mr. TSE Yue Kit, aged 44, has been an Executive Director of the Company since November 2000. He is also a Director of the Investment Manager. Mr. Tse is the General Manager in Investment & Development Division of China Merchants Finance Holdings Company Limited which is a substantial shareholder of the Company. Mr Tse has a number of years extensive experience in accounting, auditing, corporate finance as well as investment. Mr. Tse obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Directors' Report (continued)



Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 48, has been an Alternate Director of the Company since May 1999 and holds directorships in certain subsidiaries of the Company. Ms. Kan is a Director of China Bright Holdings Limited which is a substantial shareholder of the Company. She is also a Director of the Investment Manager. Ms. Kan is Managing Director of FE Group with which she has been associated since its founding in 1988. She is licensed with the Securities and Futures Commission in Hong Kong. Ms. Kan is a Certified Public Accountant (U.S.A.) and a Fellow of the Hong Kong Institute of Certified Public Accountants. She began her professional accounting career with the Hong Kong office of Arthur Andersen in the area of audit and business advisory services. Ms. Kan obtained her Bachelor of Science degree in Business Administration and Accounting and Bachelor of Arts degree in Economics from the University of Minnesota, Minneapolis, USA.



Dr. The Hon. David LI Kwok-po, *GBS, OBE, JP, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur*, aged 67, has been an Independent Non-executive Director of the Company since June 1993. He is also the Chairman of the Audit Committee of the Board of Directors of the Company. Dr. Li is the Chairman and Chief Executive of The Bank of East Asia, Limited, and a Director of numerous other companies in Hong Kong and overseas. He is a Member of both the Executive Council and the Legislative Council of Hong Kong. He is the Chairman of The Chinese Banks' Association, Limited and the Hong Kong Management Association. He is also a member of the Banking Advisory Committee, the Exchange Fund Advisory Committee and the Council of the Treasury Markets Association.



Mr. KUT Ying Hay, aged 51, has been an Independent Non-executive Director of the Company since June 1993. He is also a Non-executive Director of China Merchants Holdings (International) Company Limited and China Merchants Insurance Company Limited. Mr. Kut is a practising solicitor and notary public and the proprietor of Messrs. Kut & Co., a firm of solicitors. He is an attesting officer appointed by the Ministry of Justice of the PRC. He is also a solicitor of the Supreme Courts of England, Victoria of Australia, and Singapore, and an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators & Mediators, Australia. For the period from 1995 to 1998, he was a member of the Board of Review established by the Hong Kong government pursuant to the Inland Revenue Ordinance. Mr. Kut is currently the Chairman of the Professional Development Committee of the Association of Hong Kong Professionals Limited, a non-profit making body dedicated to provide a cross-profession platform for professionals of diverse disciplines to socialize, share knowledge and to create opportunities.

Directors' Report (continued)



Dr. POON Kwok Lim, Steven, aged 62, has been an Independent Non-executive Director of the Company since June 1993. He is the Chairman of Vertex Communications & Technology Group Limited. Dr. Poon was the General Manager and the Chief Operating Officer of a Hong Kong public utility company, China Light & Power Company Limited, and served as a member of the Hong Kong Stock Exchange Council. He was previously a Legislative Councillor and is a member of the Election Committee of the Hong Kong Special Administrative Region. He holds a master degree in electrical engineering and is a chartered engineer.



Mr. WANG Xingdong, aged 45, has been a Non-executive Director of the Company since April 2001. He is an Executive Director and the Managing Director of ONFEM Holdings Limited ("ONFEM") and a Director of China Minmetals H.K. (Holdings) Limited, both are substantial shareholder of the Company. Mr. Wang graduated from the Xiamen University, P.R.C. in 1982 with a Bachelor of Arts degree. He then continued his studies in business management between 1987 and 1989 in the Faculty of Management of Business Administration of Long Island University in New York, USA. Prior to joining ONFEM, he was the President of Chimei Metals in the USA. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.



Mr. GONG Jianzhong, aged 43, has been a Non-executive Director of the Company since September 2001. Mr. Gong has extensive experience in banking and investment. He has worked in Bank of China, Hunan Branch and currently he is the CEO of Bank of China Group Investment Limited ("BOCGI") and Director of a number of companies controlled by BOCGI or in which BOCGI has an interest. BOCGI is a substantial shareholder of the Company.

Directors' Report (continued)



Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. David LI Kwok-po), aged 45, has been an Alternate Director of the Company since May 1999. He is the General Manager and head of Investment Banking Division of The Bank of East Asia, Limited. Mr. Li has more than ten years of experience specialising in fund management and securities dealing. He is also the Managing Director of East Asia Securities Company Limited, a member of the Stock Exchange of Hong Kong, as well as a Director in a number of asset management companies.



Mr. MOK Hay Hoi, (alternate to Dr. POON Kwok Lim, Steven), aged 45, has been an Alternate Director of the Company since 29 June 2005. Mr. Mok is an Executive Director and the Group Controller of Vertex Communications and Technology Group Limited whose shares are listed on the GEM Board of The Stock Exchange of Hong Kong Limited. He is a member of the Hong Kong Institute of Certified Public Accountants and a full member of the Australian Society of Certified Public Accountants and the Institute of Certified Public Accountants of Singapore. Mr. Mok obtained a Bachelor of Commerce degree majoring in Accounting and Economics, and a Master of information system degree from University of Queensland, Australia.

Senior Management:

Mr. HO Lap Sang, Sunny, aged 39, is the qualified accountant of the Company. Mr. Ho joined the Investment Manager as the General Manager of Finance in November 2005. He has extensive experience in finance in several multinational corporations and public listed companies in Hong Kong. He holds his bachelor of laws degree with honours from the University of London and master degree of business administration specialising in Finance and Investment from the University of Hull, UK. He is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants. He is also a member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators.

Directors' Report (continued)

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2005, the interests of the Directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Number of shares	Capacity	Nature of interest	Percentage of total issued share capital
Mr. CHU Lap Lik, Victor	14,400,000	Interest of controlled corporation	Corporate	10.50%

Note: Mr. Chu Lap Lik, Victor is deemed to have an interest in the 14,400,000 shares of the Company in which China Bright Holdings Limited is interested.

Save as disclosed above, none of the Directors or chief executives, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2005, and none of the Directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the year ended 31 December 2005.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company and their associates 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

Other than the Investment Management Agreement mentioned below, no contracts of significance, to which the Company or any related company or 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' SERVICE CONTRACTS

The Directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following persons, other than a Director or chief executive of the Company, have interests in the shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Capacity	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited (Note 4)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Steam Navigation Company Limited (Note 4)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Finance Holdings Company Limited (Note 2)	Interest of controlled corporation	34,309,760	25.02%
China Merchants Financial Services Limited (Note 4)	Interest of controlled corporation	33,989,760	24.78%
Good Image Limited (Note 3)	Beneficial owner	33,989,760	24.78%
China Bright Holdings Limited (Note 3)	Beneficial owner	14,400,000	10.50%
Deutsche Bank Aktiengesellschaft	Security Interest	10,994,000	8.02%
QVT Financial GP LLC (Note 6)	Interest of controlled corporation	9,644,000	7.03%
QVT Financial LP	Fund Manager	9,644,000	7.03%
Temasek Holdings (Private) Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
Hong Lim Fund Investments Pte Ltd. (Note 3)	Beneficial owner	7,200,000	5.25%
Central Huijin Investment Company Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
Bank of China Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
Bank of China Group Investment Limited (Note 3)	Beneficial owner	7,200,000	5.25%
China Minmetals Corporation (Note 4)	Interest of controlled corporation	7,200,000	5.25%
China Minmetals H.K. (Holdings) Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
June Glory International Limited (Note 5)	Interest of controlled corporation	7,200,000	5.25%
ONFEM Holdings Limited (Note 4)	Interest of controlled corporation	7,200,000	5.25%
ONFEM Investments Limited (Note 3)	Beneficial owner	7,200,000	5.25%
Swiss Reinsurance Company (Note 3)	Beneficial owner	7,200,000	5.25%
QVT Associates GP LLC (Note 6)	Interest of controlled corporation	6,919,610	5.05%
QVT Fund LP (Note 3)	Beneficial owner	6,919,610	5.05%

Note 1: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its controlling shareholding (i.e. 99.32%) in the company whose name is set out immediately under it.

Note 2: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its entire shareholding in Everlink Limited and the company whose name is set out immediately under it.

Note 3: The company has a beneficial interest in the shares opposite to its name.

Note 4: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its entire shareholding in the company whose name is set out immediately under it.

Directors' Report (continued)

Note 5: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its controlling shareholding (i.e. 53.95%) in the company whose corporate name is set out immediately under it.

Note 6: The company is deemed to have corporate interests in the shares opposite to its name by virtue of its interest in the company whose corporate name is set out immediately under it.

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

INVESTMENT MANAGEMENT AGREEMENT

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, continues to be the Investment Manager of the Company for both listed and unlisted investments. Dr. HUANG Dazhan, Mr. CHU Lap Lik, Victor, Mr. XIE Kuixing, Mr. TSE Yue Kit and Ms. KAN Ka Yee, Elizabeth are Directors of both the Company and Investment Manager. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth have indirect beneficial interests in the Investment Manager.

The Investment Management Agreement (the "Agreement") became effective on 15 July 1993 and was for an initial term of five years and is thereafter automatically renewed for further periods of three years after the expiry of each fixed term unless the appointment is terminated by the Board either on six months' notice prior to the expiry of each term or with the sanction of shareholders in general meeting at any time if the Company suffers major losses due to the gross negligence of the Investment Manager.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Dr. Huang Dazhan

Director

Hong Kong, 20 April 2006