

Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as “the Group”) for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company comprise food processing and related businesses which include edible oils, soya bean meal and related products; wineries; confectionery; flour milling; and trading.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group as of that date are set out in the financial statements on pages 32 to 93.

An interim dividend of 2.76 HK cents per share was paid on 20 September 2004. The directors recommend the payment of a final dividend of 3.74 HK cents per share in respect of the year, to shareholders on the register of members on 9 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves in the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated and reclassified as appropriate, is set out on page 94. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in note 14 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 therefore, are set out in notes 27 and 28 to the financial statements, respectively.

Concerning the share options granted during the year to the executive directors, eligible employees and an eligible participant, as detailed in note 28 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because in the absence of a readily available market value of the share options on the shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

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 the Group during the year are set out in note 29 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

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DISTRIBUTABLE RESERVES

As of 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$665,239,000, of which HK\$65,766,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$2,771,258,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 8.9% of the total sales for the year with the largest customer accounting for approximately 2.5%. The five largest suppliers of the Group accounted for approximately 41.9% of the Group's total purchases during the year, with the largest supplier accounting for approximately 36.7%.

Apart from the Group's ultimate holding company, China National Cereals, Oils & Foodstuffs Corporation ("COFCO"), which is one of the Group's five largest customers, 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 in the Group's other four largest customers or the Group's five largest suppliers.

DIRECTORS

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

Executive Directors:

Mr. Ning Gaoning (appointed on 24 January 2005)
Mr. Liu Fuchun
Mr. Yu Guangquan
Mr. Xue Guoping
Mr. Liu Yongfu
Mr. Ng Eng Leong
Mr. Qu Zhe
Mr. Zhou Mingchen (resigned on 24 January 2005)

Independent non-Executive Directors:

Mr. Stephen Edward Clark (appointed on 24 January 2005)
Mr. Liang Shangli
Mr. Tan Man Kou (appointed on 8 March 2005)
Mr. Yuen Tin Fan, Francis

In accordance with Bye-Law 94 of the Company's Bye-Laws, Mr. Ning Gaoning, Mr. Stephen Edward Clark and Mr. Tan Man Kou will retire and, being eligible, will offer themselves for re-election at the coming annual general meeting. The independent non-executive directors are appointed for a term subject to retirement by rotation as required by the Company's Bye-Laws.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the coming annual general meeting have service contracts with the Company or any of its subsidiaries which require the Company or any of its subsidiaries to give a period of notice of more than one year or to pay compensation or may other payments equivalent to more than one year's emoluments, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

No director had a material 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, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' REMUNERATION

The directors' fee is subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group pursuant to the Bye-Laws of the Company.

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

As of 31 December 2004, the interests and short positions of the directors and their associates in the shares, debentures or underlying shares of the Company or any of its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be 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 Companies as contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company were as follows:

(A) Aggregate long positions in the shares, underlying shares and debentures of the Company and its associated companies

Name of director	Capacity and nature of interest	Number of shares held long position	Total	Percentage of aggregate interests to total number of issued shares*
Mr. Zhou Mingchen	Beneficial owner	1,500,000 ¹	11,000,000	0.63%
	Beneficial owner	9,500,000 ²		
Mr. Liu Fuchun	Beneficial owner	1,350,000 ¹	9,900,000	0.56%
	Beneficial owner	8,550,000 ²		
Mr. Yu Guangquan	Beneficial owner	117,000 ¹	5,817,000	0.33%
	Beneficial owner	5,700,000 ²		

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

(a) Aggregate long positions in the shares, underlying shares and debentures of the Company and its associated companies (continued)

Name of director	Capacity and nature of interest	Number of shares held long position	Total	Percentage of aggregate interests to total number of issued shares *
Mr. Xue Guoping	Beneficial owner	900,000 ¹	6,600,000	0.38%
	Beneficial owner	5,700,000 ²		
Mr. Liu Yongfu	Beneficial owner	900,000 ¹	6,600,000	0.38%
	Beneficial owner	5,700,000 ²		
Mr. Ng Eng Leong	Beneficial owner	1,900,000 ²	1,900,000	0.11%
Mr. Qu Zhe	Beneficial owner	105,000 ¹	775,000	0.04%
	Beneficial owner	670,000 ²		

Notes:

- 1 Long position in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
 - 2 Long position in the underlying shares of the Company pursuant to share options granted to directors under a share option scheme of the Company, details of which are separately disclosed in note 28 headed "Share Option Scheme" to the financial statements.
- * The percentage has been adjusted based on the total number of shares of the Company in issue as of 31 December, 2004 (i.e. 1,757,099,974 shares).

Saved as disclosed above, none of the directors and their associates had any other long positions in the shares, underlying shares and debentures of the Company and its associated companies.

(b) Aggregate short positions in the shares, underlying shares and debentures of the Company and its associated companies

As of 31 December 2004, none of the directors and their associates had any short positions in the shares, underlying shares and debentures of the Company and its associated companies.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The interests and short positions of substantial shareholders in the shares and underlying shares of the Company as of 31 December 2004, as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

(a) Aggregate long positions in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares and underlying shares as of 31 December 2004:

Substantial shareholders	Capacity and nature of interest	Number of shares held long position	Notes	Percentage of aggregate interests to total number of issued shares *
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,054,810,949	(1)	60.031
COFCO (BVI) No.108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	7.968
COFCO (Hong Kong) Limited ("COFCO (HK)")	Beneficial owner Interest of controlled corporations	10,138,000 1,194,810,949	(1) (1)&(2)	0.577 67.999
COFCO	Interest of controlled corporations	1,204,948,949	(1)&(3)	68.576

Notes:

1. Long position in the shares of the Company.
2. COFCO (HK) is deemed to be interested in 1,194,810,949 shares in aggregate held by Wide Smart and COFCO BVI in which COFCO (HK) is entitled to exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI.
3. COFCO is deemed to be interested in 1,204,948,949 shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) in which COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK).

* The percentage has been based on the total number of shares of the Company in issue as of 31 December 2004 (i.e. 1,757,099,974 shares).

(b) Aggregate short positions in the shares and underlying shares of the Company

As of 31 December 2004, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

Save as disclosed herein, as of 31 December 2004, the Company had not been notified of any persons other than the substantial shareholders above who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of the SFO.

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SUFFICIENT PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

During the year, the Company and its subsidiaries and associates entered into various transactions with certain connected persons including COFCO and its subsidiaries (collectively referred to as the "COFCO Group"). These transactions are considered to be connected transactions under the Listing Rules, which need to be disclosed herein in accordance with the requirements under Chapter 14A of the Listing Rules or the waivers previously granted by the Stock Exchange. Details of these transactions are as follows:

1. China Foods Trading Limited ("CFTL"), a wholly-owned subsidiary of the Company, entered into various transactions with the COFCO Group in relation to the trading of various commodities and foodstuffs including maize and sugar, with a total value of approximately HK\$392,975,000.
2. COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries and associates (collectively referred to as the "COFCO Oils & Fats Group") entered into various transactions with (i) certain members of the COFCO Group; (ii) Wilmar Trading Pte Ltd. ("Wilmar"), a company owned by a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group; and (iii) certain companies owned by Archer Daniels Midland Asia-Pacific Limited ("ADM"), a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group, or companies in which ADM has an interest, in relation to the sale of edible oils, oil-related products and soya bean products with a total value of approximately HK\$404,729,000.

In addition, the sales of edible oils and oil-related products and the resale of soya bean with a total value of approximately HK\$219,773,000 were made by certain subsidiaries of COFCO Oils & Fats Group to other subsidiaries within COFCO Oils & Fats Group. These transactions have been eliminated on consolidation but still constituted connected transactions under the Listing Rules.

3. The COFCO Oils & Fats Group entered into various transactions with (i) the COFCO Group; (ii) Wilmar; and (iii) certain companies in which ADM has an interest in relation to the purchase of raw materials of oils and soya bean with a total value of approximately HK\$5,993,737,000.
4. COFCO Wines & Spirits Holdings Limited ("COFCO Wines & Spirits"), a wholly-owned subsidiary of the Company, and its subsidiaries entered into the following transactions:
 - (i) the sale of wine and wine-related products to a company within the COFCO Group at a total value of approximately HK\$16,848,000;
 - (ii) the purchase of wine and wine-related products from a company within the COFCO Group at a total value of approximately HK\$1,123,000; and

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CONNECTED TRANSACTIONS (continued)

5. COFCO (BVI) No. 100 Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (collectively referred to as the "COFCO Trading Group") entered into various transactions with certain companies within the COFCO Group in relation to the purchase of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK\$166,979,000.
6. The COFCO Trading Group entered into various transactions with certain companies within the COFCO Group in relation to the sale of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK\$13,266,000.
7. The COFCO Trading Group also entered into the following transactions with a company with the COFCO Group:
 - (i) The payment of management fees amounting to HK\$6,792,000 to COFCO in relation to the provision of management services by COFCO to the COFCO Trading Group pursuant to service agreements dated 7 June 2001 and 23 March 2004;
 - (ii) The receipt of management fees amounting to HK\$24,292,000 from COFCO in relation to the provision of management services by the COFCO Trading Group to COFCO pursuant to a service agreement dated 26 October 2001; and
 - (iii) The payment of storage and processing fees amounting to HK\$7,036,000 to an associate of COFCO.
8. On 31 December 2003, Blissea Consortium Company Limited ("Blissea"), CFTL, two wholly-owned subsidiaries of the Company, entered into two tenancy agreements with Bapton Company Limited ("Bapton"), a wholly-owned subsidiary of COFCO HK which in turn is a substantial shareholder of the Company, for the lease of certain office space in Top Glory Tower for a period of two years from 1 January 2004 to 31 December 2005 at aggregate rental and management fees of HK\$2,894,000.

On the same date, COFCO Wines & Spirits and COFCO International (Beijing) Co., Ltd. ("COFCO (Beijing)"), two wholly-owned subsidiaries of the Company, entered into two tenancy agreements with 北京中糧廣場發展有限公司 (Beijing COFCO Plaza Development Co., Ltd.) ("COFCO Plaza Company"), a non wholly-owned subsidiary of the COFCO (HK), for the lease of certain office space in COFCO Plaza for a period of one year from 1 January 2004 to 31 December 2004 at aggregate rental and management fees of HK\$1,135,000 and HK\$4,056,000 respectively. Under the supplemental agreements ("Supplemental Agreements") dated 19 January 2005, additional rental and management fees of HK\$131,000 and HK\$496,000 were paid by COFCO Wines & Spirits and COFCO (Beijing) respectively for the use of additional office space during the six-month period ended 31 December 2004. In addition, the tenancy period was extended for another one year until 31 December, 2005, and the aggregate rental and management fees to be payable by COFCO Wines & Spirits and COFCO (Beijing) for the period from 1 January 2005 to 31 December 2005 will be about HK\$5,504,234 and HK\$1,397,296 respectively.

Pursuant to the Listing Rules, both Bapton and COFCO Plaza Company are associates of COFCO (HK), the controlling shareholder of the Company. According to the Listing Rules, a transaction between an associate of the substantial shareholder and the Company's subsidiary is a connected transaction. Details of the transactions were disclosed in announcements published on 2 January 2004 and 24 January 2005 respectively.

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CONNECTED TRANSACTIONS (continued)

9. On 24 March 2004, Bestfield Associates Limited (“Bestfield”), a wholly-owned subsidiary of the Company entered into an equity transfer agreement (the “Agreement”) with COFCO (BVI) No. 24 Limited, a wholly-owned subsidiary of the Company, Grand Silver (Lanshan) Limited, a non wholly-owned subsidiary of the Company and ADM China Holdings Ltd. (“ADM China”). Pursuant to the Agreement, the parties agreed to amend certain provisions of the Articles of Association (the “Articles”) in respect of their respective rights and obligations in relation to 黃海糧油工業(菏澤)有限公司 (Yellowsea Oils & Grains Industries (Heze) Co., Ltd.) (now known as 中糧艾地盟糧油工業(菏澤)有限公司 (COFCO ADM Oils & Grains Industries (Heze) Co. Ltd.) (“JV Co”), a wholly-foreign owned company established under the laws of the People’s Republic of China (“China”) for the production and sale of peanut oil, soya bean oil and other by-products such as peanut meal and soya bean meal, subject to the terms and considerations set out in the Articles. Pursuant to the Agreement and the Articles, Bestfield and ADM China became the investors in the JV Co with each holding 70% and 30% equity interest respectively and agreed to make their pro-rata contribution (70% and 30% respectively) towards the registered capital and the total investment of the JV Co. The total investment amount of the JV Co was US\$16,000,000, out of which US\$12,800,000 was registered capital. On the basis of the 70% equity interest held by Bestfield, the contribution made by Bestfield towards the registered capital of the JV Co was US\$8,960,000 (equivalent to approximately HK\$69,888,000) and the aggregate financial commitment assumed by Bestfield in relation to the total investment of the JV Co was US\$11,200,000 (equivalent to approximately HK\$87,360,000). In view of the higher profit margin of edible oils produced from peanut, the establishment of the JV Co will enable the Company to further expand in this market segment and strengthen its position as one of the leading edible oils producers in the PRC. ADM China is a wholly-owned subsidiary of Archer Daniels Midland Company, a company incorporated in the United States of America, which in turn is the holding company of Archer Daniels Midland Asia-Pacific Limited., a substantial shareholder of certain non wholly-own subsidiaries of the Company and a connected person of the Company. ADM China is a connected person of the Company under the Listing Rules. Pursuant to the Listing Rules, a transaction between a connected person and a subsidiary of the Company is a connected transaction. Details of the transactions were disclosed in an announcement published on 30 March 2004.

On 28 February 2005, the JV Co was approved by the authority in China to increase its registered capital by US\$9,600,000 (equivalent to approximately HK\$74,880,000), with Bestfield contributing an amount of US\$6,720,000 (equivalent to approximately HK\$52,416,000) and ADM China contributing an amount of US\$2,880,000 (equivalent to approximately HK\$22,464,000). The JV Co plans to use the increased registered capital to finance the construction of cotton seeds husking and delinting and refining facilities and further finance the construction of a peanut oil plant and the auxiliary project of the peanut oil plant. After the increase of the registered capital, Bestfield continues to hold 70% of the equity interest of the JV Co and ADM China continues to hold the remaining 30%. Pursuant to the Listing Rules, the contribution of additional capital constitutes a connected transaction. Details of the transactions were disclosed in an announcement published on 15 March 2005.

10. During the year, certain members of the Group and one of the associates of the Company placed deposits with COFCO Finance Corporation Limited (“COFCO Finance”), a beneficially wholly-owned subsidiary of COFCO and a connected person of the Company under the Listing Rules. COFCO Finance is a non-banking finance institution regulated by the People’s Bank of China (the “PBOC”) and China Banking Regulatory Commission. The interest rates on deposits offered by COFCO Finance were the same as the rates promulgated by the PBOC which are applicable to all commercial banks and finance institutes in China. During the year, the interest rates ranged from 1.44% to 1.89% per annum. As of 31 December, 2004, the deposits placed with COFCO Finance by certain members of the Group and one of the associates of the Company amounted to approximately RMB394,213,000 (2003: RMB99,636,000).

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CONNECTED TRANSACTIONS (continued)

10. (continued)

The directors of the Company were satisfied that the above transactions had been entered by the Group in the ordinary and usual course of the business of the Group on normal commercial terms and were fair and reasonable as far as the shareholders were concerned. Subject to the approval of the Stock Exchange, details of these transactions will be duly announced.

In accordance with the requirements of the respective waivers granted by the Stock Exchange, the independent non-executive directors confirm that:

(a) In relation to items 1 to 7

- these transactions were entered into by the Company in the ordinary and usual course of its business;
- these transactions were entered into on normal commercial terms;
- these transactions were fair and reasonable so far as the shareholders of the Company were concerned;
- these transactions were carried out in accordance with the terms of the agreements governing such transactions or, where there was no such agreements, on terms no less favourable than those available to or from independent third parties;

(b) In relation to item 1

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 70% of the Group's net tangible asset value as disclosed in the Group's audited consolidated financial statements for the year;

(c) In relation to item 2

- the aggregate amount of each of these transactions did not exceed the cap amount set for the waiver, i.e., 18% of the Group's consolidated turnover as disclosed in the Group's audited consolidated financial statements for the year;

(d) In relation to item 3

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 80% of the Group's consolidated turnover as disclosed in the Group's audited consolidated financial statements for the year;

(e) In relation to items 4(i), 4(ii), 6, 7(i), 7(ii) and 7(iii)

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 3% of the book value of the Group's net tangible asset as disclosed in the Group's audited consolidated financial statements for the year; and

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CONNECTED TRANSACTIONS (continued)

(f) In relation to item 5

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 6% of the Group's consolidated turnover as disclosed in the Group's audited consolidated financial statements for the year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as disclosed below, five directors of the Company, namely Messrs. Ning Gaoning, Liu Fuchun, Yu Guangquan, Xue Guoping and Liu Yongfu, also being directors of the Company's ultimate holding company, COFCO and/or its subsidiaries, are considered to have interests in the COFCO Group's flour milling business which is likely to compete directly with that of the Company.

During the year, the Company's flour milling business was operated mainly through Xiamen Haijia Flour Mills Co., Ltd. and Zhengzhou Haijia Food Co., Ltd. which target customers in the southern and central regions in China. Since the COFCO Group's flour milling business is operated mainly through its investments in two flour mills in Shenyang and Qinhuangdao, which target the flour markets in the northern and eastern regions of China, the effect of any possible competition between the flour milling business of the Company and that of the COFCO Group is minimised.

PURCHASE, REDEMPTION OF SALE OF LISTED SECURITIES

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

AUDIT COMMITTEE

Pursuant to the Code on Best Practices as set out in Appendix 14 to the Listing Rules, the Company has established an audit committee (the "Audit Committee"). As of 31 December 2004, the Audit Committee comprised two independent non-executive directors, namely Mr. Yuen Tin Fan, Francis and Mr. Liang Shangli, as its members with written terms of reference. Two additional independent non-executive directors, namely Mr. Stephen Edward Clark and Mr. Tan Man Kou were appointed as members of the Audit Committee on 24 January 2005 and 8 March 2005 respectively.

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters in connection with the preparation of the audited financial consolidated accounts of the Company for the year ended 31 December, 2004. All issues raised by members of the Audit Committee had been addressed by the management of the Company.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code on Best Practices as set out in Appendix 14 to the Listing Rules, throughout the accounting period covered by this annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-Laws.

The Company has adopted a Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code"). The Company has made specific enquiries of all directors regarding any non-compliance with the Model Code during the year and they all confirmed that they had fully complied with the required standard set out in the Model Code.

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CORPORATE GOVERNANCE (continued)

The Company has received, from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. As of the date of this annual report, the Company still considers them to be independent.

Throughout the year ended 31 December 2004, the Company only appointed two independent non-executive directors. On 24 January 2005, an additional independent non-executive director, Mr. Stephen Edward Clark, was appointed to comply with Rules 3.10(2) and 3.21 of the Listing Rules on the required number of independent non-executive directors and the composition of the audit committee by three non-executive directors with at least one of whom being an independent non-executive director with accounting or related financial management expertise respectively.

AUDITORS

There have been no changes of auditors during the past three years, except that W.M. Sum & Co. resigned as one of the joint auditors of the Company and Ernst & Young was appointed by the shareholders as the sole auditors since the financial year of 2003, whereas previously they were the joint auditors.

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the coming annual general meeting.

ON BEHALF OF THE BOARD

Yu Guangquan

Managing Director

Hong Kong
6 April 2005