

Report of the Directors

The Directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31 December 2003.

Principal activity

The Company is an investment company, incorporated as an exempted company in the Cayman Islands, which invests in companies with significant business involvement in the People's Republic of China. There were no changes in the nature of the Company's principal activity during the year.

At the Board of Directors (the "Board") meeting held on 5 September 2001, the Board discussed the operations and prospects of the Company and resolved that it would be in the best interests of the shareholders to take steps to wind up the Company as soon as practicable. The Board continued to take steps to achieve this during the year.

Reserves

Details of movements in the Company's reserves during the year are set out in the statement of changes in equity on page 14.

Results and dividends

The Company's profit for the year ended 31 December 2003 and the state of the Company's affairs at that date are shown in the financial statements set out on pages 12 to 22.

Special interim dividends of US\$0.14 and US\$0.18 per ordinary share were made in July and October 2003, respectively. The Directors do not recommend the payment of a final dividend in respect of the year.

Summary financial information

A summary of the published results and of the assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements is set out on page 5. This summary does not form part of the audited financial statements.

Distributable reserves

Article 120 of the Company's Articles of Association originally stated that surpluses arising from the realisation of investments were not available for distribution. Pursuant to a special resolution passed at an extraordinary general meeting on 22 January 1999, Article 120 of the Company's Articles of Association was amended so that the Company's surpluses arising from the realisation of investments became available for distribution with effect from 22 January 1999.

There are no prohibitions on the distribution of the Company's share premium in the form of dividends by the Company's Articles of Association or the laws of the Cayman Islands, provided that the Company is solvent before and after the dividend payments. At 31 December 2003, the Company had no reserves available for distribution.

Report of the Directors (continued)

Directors

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

Donald P H Liao, CBE, JP (Chairman and independent non-executive director) — *appointed on 28 May 1992.*
Donald P H Liao, CBE, JP, aged 74, is the Chairman of the Company. He is a senior adviser of Mitsui & Company (Hong Kong) Limited.

Nigel S Tulloch (Independent non-executive director) — *appointed on 28 May 1992.*
Nigel S Tulloch, aged 57, was previously the deputy chairman of the Listed Portion Investment Adviser and chief executive of the Investment Manager until September 1992 when he retired. He is a director of The China Fund Inc.

Sir Alan E Donald, KCMG, LLD (Independent non-executive director) — *appointed on 25 October 1994.*
Sir Alan E Donald, KCMG, LLD, aged 72, retired as British Ambassador to China in 1991. Sir Alan is a former director of The China Fund Inc.

Dr K S Lo (Independent non-executive director) — *appointed on 28 May 1992.*
Dr K S Lo, aged 57, graduated with a B.Sc from McGill University and an M.D. from Cornell University. He is certified in Cardiology. He has more than 22 years' experience in property and hotel development, investment and management, both in Hong Kong and overseas. Dr Lo is also the deputy chairman and managing director of Great Eagle Holdings Limited, the non-executive chairman of Panda-Recruit Limited and a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited and China Mobile (Hong Kong) Limited. He is also a director of Hong Kong Exchanges and Clearing Limited, a vice president of the Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Centre for Economic Research and a member of the Council of Advisors on Innovation and Technology.

Vincent J Warner (Executive director) — *appointed on 20 January 2000.*
Vincent J Warner, aged 39, is the Finance Director of HSBC Private Equity (Asia) Limited. He holds an MA in Jurisprudence from Oriel College, Oxford, England. Prior to joining HSBC Private Equity (Asia) Limited, Mr Warner worked for AusAsean Management Limited, the direct investment subsidiary of the AusAsean Group in Australia and Lloyds Development Capital Limited, the direct investment subsidiary of Lloyds Bank plc in the UK.

Jack N Mayer (Non-executive director) — *appointed on 16 November 1998.*
Jack N Mayer, aged 51, is a portfolio manager for Gabriel Capital Corp. and its associated entities. He has served on numerous creditor committees in bankruptcy and work-out situations. Prior to that, he was employed by a venture stage technology company and a regional securities brokerage firm. Mr Mayer is also a director of China North Industries Investment Limited and China Investment Company Limited.

Vincent J Warner and Dr K S Lo will retire from the board in accordance with Articles 89(B) and 89(C) of the Company's Articles of Association at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Report of the Directors (continued)

Directors' interests in shares, underlying shares and debentures

At 31 December 2003, the interests of the Directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of 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 Companies, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Vincent J Warner	Personal	4,777	0.02

Save as disclosed above, none of the directors had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Management agreements and directors' interests in contracts

There was in existence during the financial year, an Investment Management Agreement made between the Company and HSBC Asset Management (Bahamas) Limited ("AMBL") whereby AMBL was appointed the Investment Manager of the Company for both listed and unlisted investments. The appointment became effective on 8 June 1992 and continues in force until terminated by either party giving to the other not less than sixty days' notice in writing. On 8 June 1992, AMBL, the Investment Manager of the Company, entered into an Unlisted Portion Investment Advisory Agreement with HSBC Private Equity (Asia) Limited ("PEAL"), whereby PEAL was appointed general adviser to AMBL on the Company's unlisted investments. Such agreement is terminable by either party to the contract upon giving sixty days' notice in writing to the other party.

Mr Vincent J Warner is a director of PEAL.

Save as disclosed herein, no contracts of significance to which the Company was a party and in which a Director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' service contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than normal statutory obligations.

Report of the Directors (continued)

Substantial shareholders' interests in shares and underlying shares

As at 31 December 2003, the register kept by the Company under Section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more of the Company's issued share capital:

Long positions in ordinary shares of the Company:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
Friends Ivory & Sime Plc (<i>Note</i>)	2,602,486	10.68

Save as disclosed above, no person had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Purchase, sale or redemption of listed securities of the Company

The Company neither purchased, sold nor redeemed any of its own listed securities during the year.

Discussion and analysis of performance and material factors affecting the results and financial position

These matters are considered in detail in other sections of this annual report and no further discussion or analysis is required to present a balanced review of the Company's operations for the year.

Major customers and suppliers

The Company's revenue is derived from its investments. The Company, therefore, has no major customers and no major suppliers requiring disclosure.

A substantial proportion of the Company's turnover is derived from its investments and the disclosure of information regarding customers would not be meaningful.

Pre-emptive rights

No pre-emptive rights exist under the laws of the Cayman Islands in relation to the issue of new shares by the Company.

Audit committee

The Company established an audit committee in 1998 in accordance with paragraph 14 of the Code of Best Practice.

Note:

Subsequent to the balance sheet date, the Company has been informed by Friends Ivory & Sime Plc that its name had been changed to ISIS Asset Management plc. ("ISIS"). The Company has also been informed by ISIS that it no longer has a notifiable interest in the Company's shares. However, the Company has not received any formal notification from ISIS as required under the SFO.

Report of the Directors (continued)

Compliance with the Code of Best Practice (Listing Rules Appendix 14)

The Company complied with paragraphs 1 to 13 of the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange throughout the accounting year ended 31 December 2003, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with Articles 89(B) and 89(C) of the Company's Articles of Association.

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

Donald P H Liao

Chairman

Hong Kong, 29 March 2004