

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 30.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and warrants of the Company during the year are set out in note 22 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 14 to the financial statements.

INVESTMENT PROPERTIES

The Group revalued its investment properties at the balance sheet date. The revaluation decrease, which has been charged to consolidated income statement, amounted to approximately HK\$45 million. Details of movements in the investment properties of the Group during the year are set out in note 15 to the financial statements.

INTERESTS IN PROPERTIES

Particulars of the Group's interests in properties are set out on page 74.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's purchases. The largest customer and the five largest customers accounted for 21% and 47% of the Group's turnover respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

DIRECTORS

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

Executive directors:

Mr. Xu Ying (*Chairman*)

Mr. Liu Ming Hui (*Managing Director*)

Mr. Xu Yongxuan (*resigned on 5 January 2004*)

Non-executive director:

Mr. Zhang Shuang

Independent non-executive directors:

Mr. Li Weibin

Mr. Wang Xianjun

In accordance with clauses 99(A) and 99(B) of the Company's Bye-Laws, Mr. Li Weibin will retire and, being eligible, offer himself for re-election.

Independent non-executive directors are not appointed for a specific term. All directors (including non-executive director and independent non-executive directors) are subject to retirement by rotation in accordance with the Company's Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, none of the directors and chief executive of the Company had interests in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 & 8 of Part XV of the SFO (including the interests and short positions which the director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed in note 22 to the financial statements, 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 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

No contract 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, as far as known to the Company, the following shareholders, other than directors and chief executive of the Company, had interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly, interested in 5% or more of the nominal value of any class of the share capital carry rights to vote in all circumstances at general meeting of the Company.

(1) Long positions

Name of shareholder	Notes	Number of shares held	Percentage to share capital of the Company
Hai Xia Finance Limited	(i)	12,200,000	7.37
Suntek Corp.	(ii)	27,598,000	16.67

Notes:

- (i) Hai Xia Finance Limited is a wholly owned subsidiary of Iwai's Investments Limited ("IIL") which in turn is a wholly owned subsidiary of China Gas Holdings Limited ("China Gas") and both IIL and China Gas are therefore deemed to have interest in the shares.
- (ii) The entire issued share capital of Suntek Corp. is wholly and beneficially owned by Mr. Chiu Winerthan.
- (iii) Pursuant to a subscription agreement dated 8 December 2003 entered into between the Company and Billion Charm Holdings Limited ("Billion Charm"), Billion Charm agreed to subscribe for and the Company agreed to allot and issue an aggregate of 33,100,000 shares in cash at subscription price of HK\$0.231 (the "Subscription"). The entire issued share capital of Billion Charm is wholly and beneficially owned by Mr. Huang Lai-Pei. Completion of the Subscription took place in January 2004.

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(2) Short positions

Name of shareholder	Notes	Number of shares held	Percentage to share capital of the Company
China Main Investment (H.K.) Company Limited	1,2,3	32,000,000	19.3

Notes:

1. China Main Investment (H.K.) Company Limited ("China Main") is owned as to 60% by Centre Mark Development Limited and as to 40% by Sino Elite International Limited. Centre Mark Development Limited is owned as to 99.99% by Mr. Chen Dacheng and as to 0.01% by China Main Group Company Limited. Sino Elite International Limited is owned as to 99.99% by China Main Group Company Limited and as to 0.01% by Mr. Pai Chin Ming. China Main Group Company Limited is owned as to 99% by Mr. Chan Dacheng and as to 1% by Mr. Pai Chin Ming.
2. Apart from the 32,000,000 shares in the Company, China Main also holds 10,000,000 warrants at the subscription price of HK\$5 which is entitled to subscribe for 10,000,000 shares (the "Warrants") in the Company if China Main exercises the right of subscription in full. The Warrants lapsed during the year ended 31 December 2003.
3. On 14 April 2003, Shenzhen Venture Capital (BVI) Company Limited reported that it has a security interest in 32,000,000 shares. Shenzhen Venture Capital (BVI) Company Limited is owned as to 50% by Mr. Mei Jian and 50% by Mr. Zhang Minlong.

Save as disclosed above, the Company has not been notified of any other shareholders who had any interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly, interested in 5% or more of the nominal value of any class of the share capital carry rights to vote in all circumstances at general meeting of the Company as at 31 December 2003.

PRE-EMPTIVE RIGHTS

There are no provision 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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited except that the non-executive director and the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's Bye-laws.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 32 to the financial statements.

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

Xu Ying

Chairman

Hong Kong, 23 April 2004