

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 1 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 23.

The Directors do not recommend the payment of any interim or final dividend for the year ended 31 December 2003.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of share premium and contributed surplus less accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

The Company had no reserves available for distribution to shareholders as at 31 December 2003.

INVESTMENT PROPERTIES

Details of revaluation of investment properties of the Group are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

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RETIREMENT AND PENSION PLANS

The group companies operating in the People's Republic of China (the "PRC") have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. These group companies are required to make specific contributions to the retirement schemes at a rate of 20% of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2003 amounted to approximately HK\$74,000.

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all its non-PRC employees in 2000. The MPF Scheme is registered with the Hong Kong Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the year, the Group made retirement benefit scheme contributions arising from the MPF Scheme amounting to HK\$93,000.

DIRECTORS

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

Executive Directors

Mr. Han Junran (*Chairman*)

Mr. Fu Yiu Kwong

(appointed on 13 March 2003)

Mr. Tam Biu Sing, Joseph

Independent Non-executive Directors

Mr. Chan Yiu Tung, Anthony

Mr. Wong Shing Kay, Oliver

(appointed on 14 March 2003)

In accordance with the provisions of the Company's Articles of Association, Mr. Chan Yiu Tung, Anthony shall retire from office and, being eligible, offers himself for re-election.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Han Junran and Fu Yiu Kwong, the Executive Directors has entered into a service agreement with the Company for a period of three years and two years commencing on 16 December 2002 and 13 March 2003 respectively and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

The term of office of each of the Independent Non-executive Directors is the period to his retirement by rotation in accordance with the Company's Articles of Association.

Subject to the above, there are no service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the interests and short positions of the directors and the chief executive and their associates in the share capital and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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:

1. Long positions

(a) Ordinary shares of HK\$0.001 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Han Junran	Beneficial owner (note i)	13,587,900	5%

Note:

- (i) Pursuant to a share charge entered into between New Rank Groups Limited ("NRG"), a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank of Canada Trust Company (Cayman) Limited ("Royal Bank Trustee"), and Mr. Han Junran as chargors and Starry Joy Properties Investment Ltd. ("Starry Joy"), a wholly owned subsidiary of Continental Mariner Investment Company Limited ("CMIC"), as chargee dated 23 June 2003, among other things, Mr. Han Junran charged his interest in 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of Starry Joy.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

1. Long positions *(Continued)*

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares	Percentage of the issued share capital of the Company
Mr. Han Junran	Beneficial owner	5,000,000	5,000,000	1.84%

Other than as disclosed above and certain nominee share in subsidiary held by the director in trust for the Group, none of the directors or the chief executive, nor their associates had any beneficial interests and short positions in the share capital and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded in the register 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 for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEMES

Pursuant to a shareholders' resolution passed on 14 June 2002, the share option scheme of the Company ("2000 share option scheme"), which was approved by its shareholders on 25 January 2000 enabling the directors to grant options to eligible employees, including directors of the Company and/or its subsidiaries to subscribe for shares in the Company was terminated.

A new share option scheme (the "New Share Option Scheme") was approved and adopted on 14 June 2002. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2000 share option scheme shall continue to be subject to the provisions of the 2000 share option scheme and the adoption of the New Share Option Scheme will not in any event affect the terms of the grant of such outstanding options.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(Continued)*

The New Share Option Scheme was adopted for the purpose of encouraging the full-time employees and Directors (including non-executive Directors and independent non-executive Directors), part time employees with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, provider of goods and/or services and other person who has contributed to the Group or their trustee ("the Participants") to perform their best in achieving the goals of the Group and at the same time to allow them to enjoy the results of the Company attained through their efforts and contributions. Under the New Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme unless approval from the Company's shareholders is obtained to renew such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme together with any options outstanding and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each Participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular Participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK\$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the options offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

No options have been granted under the New Share Option Scheme since its adoption.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(Continued)*

The following table discloses movements in the Company's share options during the year:

	Option type	Date of grant	Exercise period	Outstanding at the beginning of the year HK\$	Lapsed during of the year HK\$	Outstanding at the end of the year HK\$
Mr. Han Junran, director	2001B	15 February 2001	15 February 2001 to 14 February 2004	5,000,000	—	5,000,000
Employees	2001C	21 February 2001	21 February 2001 to 20 February 2004	1,000,000	—	1,000,000
Others	2000	27 July 2000	27 July 2000 to 26 July 2003	1,450,000	(1,450,000)	—
Total of all categories				<u>7,450,000</u>	<u>(1,450,000)</u>	<u>6,000,000</u>

The total number of securities available for issue under the New Share Option Scheme is 27,175,800 shares, representing 10% of the issued share capital of the Company as at the date of this report.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes for the Participants as disclosed above, 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, and neither the Directors nor the chief executive, nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Amongst the Ancillary Agreements, (i) the Memorandum and Consulting and Guarantee Fee Agreement, (ii) the New City Guarantee and (iii) the Poly Corporation Guarantee, New City Counter Indemnity and Zhong Zheng Counter Indemnity may constitute separate connected transactions for the Company which may fall within the de minimus threshold under Rule 14A.32 of the Listing Rules or the scope of Rule 14A.66 of the Listing Rules. Therefore particulars of these connected transactions are to be disclosed in this annual report under Rules 14A.45 to 14A.46.

(a) De minimus connected transactions

The Memorandum and Consulting and Guarantee Fee Agreement

As Poly Corporation is a substantial shareholder of Zhong Zheng, Poly Corporation is a connected person (as such term is defined under the Listing Rules) of the Company. Accordingly, the provisions of guarantee fee (RMB9,500,000) and consultation fee (RMB2,500,000) by Zhong Zheng to Poly Corporation under the Memorandum and Consulting and Guarantee Fee Agreement may constitute two separate connected transactions for the Company.

(b) Connected transactions pursuant to Rule 14A.66 of the Listing Rules

New City Guarantee

Pursuant to the New City Guarantee, the Company and Zhong Zheng agreed to, inter alia, procure and guarantee the fulfillment by Zhong Zheng of all its obligations under the Agreement. This may constitute a guarantee by the Company on the performance of obligations by Zhong Zheng. As this may be within the exemption in respect of the connected transaction under Rule 14A.66 of the Listing Rules, details of the New City Guarantee are therefore disclosed in this annual report in accordance with Rules 14A.45 to 14A.46 of the Listing Rules.

Poly Corporation Guarantee, New City Counter Indemnity and Zhong Zheng Counter Indemnity

Pursuant to the Poly Corporation Guarantee, Poly Corporation has agreed to procure and guarantee the fulfillment by Zhong Zheng of all its obligations under the Agreement. In this connection, the Company and Zhong Zheng entered into the New City Counter Indemnity and Zhong Zheng Counter Indemnity in favour of Poly Corporation respectively to counter indemnify Poly Corporation of its obligations under the Poly Corporation Guarantee given in favour of the Other Party.

Taking into account the above, the Board considers that the overall and actual effect of these guarantees and counter indemnities is to provide for a guarantee by the Company on the performance of Zhong Zheng. As this may be within the exemption in respect of the connected transaction under Rule 14A.66 of the Listing Rules, details of the Poly Corporation Guarantee, New City Counter Indemnity and PRC Subsidiary Counter Indemnity are therefore required to be disclosed in this annual report in accordance with Rules 14A.45 to 14A.46 of the Listing Rules.

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MANAGEMENT CONTRACT

During the year, the Company has entered into a management contract with Million Rich Consultants Limited ("Million Rich") for provision of administrative and financial advisory services to the Group. An amount of HK\$3,310,000 was paid which comprised the total of basic monthly charge of HK\$1,800,000 and an additional charge of HK\$1,510,000. The contract is determinable by either party giving to the other party to the agreement of six months' notice. No director of the Company has any interest in Million Rich.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of a director or chief executive of the Company, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of shareholder	Capacity	Number of issued ordinary shares held (long position ("L")/ short position ("S"))	Percentage of the issued share capital of the Company (long position ("L")/ short position ("S"))
CMIC	Person having a security interest in shares (note 1)	67,939,500 (L)	25% (L)
NRG	Notes 1 and 2	54,351,600 (L) 54,351,600 (S)	20% (L) 20% (S)
Silver World Limited	Note 2	54,351,600 (L) 54,351,600 (S)	20% (L) 20% (S)
Royal Bank Trustee	Note 3	54,351,600 (L) 54,351,600 (S)	20% (L) 20% (S)
Wei Ping	Beneficial owner	47,032,000 (L)	17.31% (L)
Lu Shu Guang	Notes 1 and 5	13,587,900 (L)	5% (L)

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

- (1) Pursuant to a share charge entered into between NRG and Mr. Han Junran as chargors and Starry Joy, a wholly-owned subsidiary of CMIC, as chargee dated 23 June 2003, NRG and Mr. Han Junran charged their respective interests in 20% and 5% of the issued share capital of the Company, representing 54,351,600 shares and 13,587,900 shares of the Company respectively, in favour of Starry Joy. By virtue of its shareholding in Starry Joy, CMIC is deemed to be interested in 67,939,500 shares of the Company under the SFO.
- (2) NRG is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee.
- (3) Royal Bank Trustee is the trustee of a discretionary trust called New Rank Trust. The beneficiaries of the New Rank Trust include a holding company and its wholly-owned subsidiary and certain relatives of Mr. Leung Kwo and Ms. Lau Shun, wife of Mr. Leung Kwo, provided that such individuals are not residents of Canada for tax purpose nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust.
- (4) The beneficiaries under the Hold Trust include the lineal descendants (together with their spouses) of every degree of consanguinity of the paternal grandfather and maternal grandfather of each of Mr. Leung Kwo and Ms. Lau Shun provided that they are not residents of Canada for tax purposes nor residents of the PRC.
- (5) Ms. Lu Shu Guang is the spouse of Mr. Han Junran, a Director and Chairman of the Company. Ms. Lu is deemed to be interested in the 13,587,900 shares of the Company held by Mr. Han Junran under the SFO.

So far as is known to any director or chief executive of the Company, the only company (other than members of the Group) directly or indirectly interested in 5% or more of the voting power at general meetings of the subsidiaries of the Company is set out below:

Name of owner	Name of subsidiary	Percentage of equity interest
Guozheng Economic Development Company Limited ("Guozheng") (Note 1)	Beijing Zhong Zheng Real Estate Development Co., Ltd. ("Beijing Zhong Zheng")	34%
Starry Joy (Note 2)	Tong Sun Limited ("Tong Sun")	49%

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SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

- (1) Beijing Zhong Zheng was established on 5 June 1995. Its existing joint venture partners are Tong Sun, a subsidiary of the Company, Guozheng and Beijing Finance Street Construction & Development Co. Ltd. ("Finance Street Development") and its capital contributions are as to 66% by Tong Sun and 34% by Guozheng. Pursuant to an agreement entered into between Finance Street Development, Guozheng and Tong Sun on 9 October 1999, Tong Sun became entitled to 100% of the economic benefit of Beijing Zhong Zheng and Guozheng becomes entitled to a fixed distribution by way of the ownership right of an office space in the China Securities Plaza, the property being developed by Beijing Zhong Zheng, of gross floor area of 7,000 square metres upon the completion of construction of the China Securities Plaza.
- (2) Starry Joy is entitled to a preferred dividend of HK\$94.6 million of Tong Sun and repayment of its loan and loan from CMIC together with interest accrued thereon are in priority over the preferred dividend payment to the Group by Tong Sun, which is up to HK\$136 million. After the payment of the aforesaid preferred dividend payments and repayment of all loans from Starry Joy and CMIC, dividend and/or distribution to be declared by Tong Sun will be in the following proportion:

The Group	75%
Starry Joy	25%

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions as at 31 December 2003 representing 5% or more of the issued share capital of the Company.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year ended 31 December 2003. Neither the Company nor any of its subsidiaries has purchased or sold any of the shares of the Company during the year ended 31 December 2003.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

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MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, turnover attributable to the Group's largest customer accounted for approximately 20% of the Group's consolidated turnover and aggregate turnover attributable to the five largest customers of the Group accounted for approximately 93% of the Group's consolidated turnover.

For the year ended 31 December 2003, purchases attributable to the Group's largest supplier accounted for approximately 43% of the Group's total purchases and aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 53% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors, or their respective associates, or shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in any of the five largest customers or suppliers.

AUDITORS

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

On behalf of the Board

HAN JUNRAN

CHAIRMAN

Hong Kong, 26 April 2004