

The directors have pleasure in presenting their annual report and the audited financial statements of China Rich Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 July 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 37 to the financial statements.

## RESULTS AND APPROPRIATIONS

The Group's result for the year ended 31 July 2004 and the state of affairs of the Company and the Group as at 31 July 2004 are set out in the financial statements on pages 22 to 26.

The directors do not recommend the payment of dividend for the year.

## RESERVES

Details of movements during the year in the reserves of the Company and the Group are set out in note 29 to the financial statements and in the consolidated statement of changes in equity on page 27 respectively.

## DISTRIBUTABLE RESERVES

In the opinion of the directors, the Company has no reserves available for distribution to its shareholders. However, pursuant to the Companies Act 1981 of Bermuda, the Company's share premium account of HK\$399,499,000 can be distributed in the form of fully paid shares.

## INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 12 to the financial statements.

## FIXED ASSETS

Details of movements during the year in the fixed assets of the Group are set out in note 13 to the financial statements.

## GOLF RESORT

Details of the movements during the year in golf resort of the Group are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

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

## DIRECTORS AND SERVICE CONTRACTS

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

*Executive directors:*

Mr. Yip Kwong, Robert (*Chairman*)

Ms. Cheng Kit Yin, Kelly (*Deputy Chairman and Chief Financial Officer*)

Mr. Kam Shing

*Independent non-executive directors:*

Dr. Wong King Keung, Peter

Dr. Lau Lap Ping

Mr. Edmund Siu (Appointed on 30 September 2004)

There is no service contract entered into between the Company and Mr. Edmund Siu. Mr. Edmund Siu has no fixed term of service with the Company.

The independent non-executive directors are also subject to retirement by rotation in accordance with the Company's Bye-laws.

In accordance with Clause 87 of the Company's Bye-laws, Ms. Cheng Kit Yin, Kelly shall retire at the forthcoming annual general meeting. All other remaining directors continue in office.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31 July 2004, the interests of the directors in the share capital of the Company and the associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as notified to 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:

### (i) Shares

#### Shares in the Company

| Name of director         | Personal interest     | Corporate interest                |
|--------------------------|-----------------------|-----------------------------------|
|                          | Number of shares held | Number of shares held<br>(Note a) |
| Mr. Yip Kwong, Robert    | 27,000,000            | 819,518,739                       |
| Ms. Cheng Kit Yin, Kelly | 71,574,000            | -                                 |

*Note a:* These shares are owned by Central Securities Holdings Limited, a wholly-owned subsidiary of Everbest Holdings Group Limited which is a company wholly owned by Mr. Yip Kwong, Robert.

#### Shares in GreaterChina Technology Group Limited ("GreaterChina")

| Name of director         | Personal interest     | Corporate interest                |
|--------------------------|-----------------------|-----------------------------------|
|                          | Number of shares held | Number of shares held<br>(Note b) |
| Mr. Yip Kwong, Robert    | 1,201,500             | 280,673,394                       |
| Ms. Cheng Kit Yin, Kelly | 44,046,020            | -                                 |

*Note b:* 258,451,559 shares are owned by the Company, in which Mr. Yip Kwong, Robert was interested in 846,518,739 shares in the Company, representing approximately 37.5% interest in the Company as at 31 July 2004 and 22,221,835 shares are owned by Central Securities Holdings Limited.

**DIRECTORS' INTERESTS IN SHARES AND OPTIONS** *(Continued)***(ii) Options****Options in the Company**

| <b>Name of director</b>    | <b>Date of grant</b> | <b>Exercise price<br/>HK\$</b> | <b>Number of<br/>share options<br/>outstanding<br/>as at 1 August 2003<br/>and 31 July 2004</b> |
|----------------------------|----------------------|--------------------------------|---|
| Mr. Yip Kwong, Robert      | 5 March 1997         | 0.43                           | 5,000,000   |
|                            | 26 January 2000      | 0.30                           | 8,000,000   |
|                            | 22 March 2000        | 0.33                           | 10,000,000  |
| Ms. Cheng Kit Yin, Kelly   | 5 March 1997         | 0.43                           | 5,000,000   |
|                            | 26 January 2000      | 0.30                           | 4,000,000   |
|                            | 22 March 2000        | 0.33                           | 10,000,000  |
| Mr. Kam Shing              | 26 January 2000      | 0.30                           | 3,000,000   |
| Dr. Wong King Keung, Peter | 26 January 2000      | 0.30                           | 5,000,000   |

There were no options granted to or exercised by the directors during the year.

**Options in GreaterChina**

| <b>Name of director</b>  | <b>Date of grant</b> | <b>Exercise price<br/>HK\$</b> | <b>Number of<br/>share options<br/>outstanding<br/>as at 1 August 2003<br/>and 31 July 2004</b> |
|--------------------------|----------------------|--------------------------------|---|
| Ms. Cheng Kit Yin, Kelly | 19 December 2000     | 0.218                          | 16,000,000  |
|                          | 4 June 2002          | 0.234                          | 51,808,000  |
| Mr. Kam Shing            | 19 April 2002        | 0.234                          | 1,000,000   |
| Dr. Lau Lap Ping         | 19 April 2002        | 0.234                          | 1,000,000   |

## **DIRECTORS' INTERESTS IN SHARES AND OPTIONS** *(Continued)*

### **(ii) Options** *(Continued)*

There were no options granted to or exercised by the directors during the year.

Save as disclosed above, at no time during the year was the Company, its ultimate holding company, or any subsidiaries of its ultimate holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Save as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, at 31 July 2004, neither the directors nor the chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SFO.

## **SHARE OPTION SCHEMES**

Pursuant to a special general meeting of the Company held on 30 September 1994, the Company adopted an old share option scheme (the "Old Scheme") pursuant to which the directors were authorised to grant options to employees, including executive directors, of the Company or its subsidiaries to subscribe for shares of the Company at a price equal to the higher of the nominal value of the shares and an amount not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Options granted under the Old Scheme will entitle the holder to subscribe for shares from the date of grant up to 30 September 2004.

As at 31 July 2004, options to subscribe for an aggregate of 50,800,000 shares of the Company had been granted to certain directors and employees pursuant to the Old Scheme.

**SHARE OPTION SCHEMES** *(Continued)*

On 10 January 2002, the Company passed an ordinary resolution regarding the termination of the Old Scheme and adopted a new share option scheme (the "New Scheme") for the primary purpose of providing incentive to the eligible employees and directors of the Company. Under the terms of the New Scheme, the board of directors of the Company may, at their discretion, grant options to the participants who fall within the definition prescribed in the New Scheme including the employees and executive directors of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the highest of (i) an amount not less than the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options; (ii) the closing price of the shares on the Stock Exchange on the day of the offer of grant of the options; and (iii) the nominal value of the shares. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders. Options granted under the New Scheme will entitle the holder to subscribe for shares from the date of grant up to 9 January 2012. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

No options were granted to any directors and employees of the Company during the year ended 31 July 2004 pursuant to the New Scheme.

**SHARE OPTION SCHEMES** *(Continued)*

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

| Name of director           | Date of grant   | Exercise price<br>HK\$ | Number of<br>share options<br>outstanding<br>as at 1 August 2003<br>and 31 July 2004 |
|----------------------------|-----------------|------------------------|--|
| Mr. Yip Kwong, Robert      | 5 March 1997    | 0.43                   | 5,000,000  |
|                            | 26 January 2000 | 0.30                   | 8,000,000  |
|                            | 22 March 2000   | 0.33                   | 10,000,000   |
| Ms. Cheng Kit Yin, Kelly   | 5 March 1997    | 0.43                   | 5,000,000  |
|                            | 26 January 2000 | 0.30                   | 4,000,000  |
|                            | 22 March 2000   | 0.33                   | 10,000,000   |
| Mr. Kam Shing              | 26 January 2000 | 0.30                   | 3,000,000  |
| Dr. Wong King Keung, Peter | 26 January 2000 | 0.30                   | 5,000,000  |
| Total                      |                 |                        | 50,000,000   |
| Employees                  | 26 January 2000 | 0.30                   | 800,000  |
|                            |                 |                        | 50,800,000   |

## SHARE OPTION SCHEMES *(Continued)*

Details of the outstanding share options are as follows:

| Number of<br>share options | Date of grant   | Exercise price<br>per share<br>HK\$ | Exercise period                            |
|----------------------------|-----------------|-------------------------------------|--|
| 10,000,000                 | 5 March 1997    | 0.43                                | From date of grant to<br>30 September 2004 |
| 20,800,000                 | 26 January 2000 | 0.30                                | From date of grant to<br>30 September 2004 |
| 20,000,000                 | 22 March 2000   | 0.33                                | From date of grant to<br>30 September 2004 |
| <hr/><br><u>50,800,000</u> |                 |                                     |  |

The options may be exercised at any time within the exercise period provided that the options have been vested. Generally, the options are vested in different tranches and are cancelled where the grantee ceased to be employed by the Group.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the Group's transactions with GreaterChina, in which Ms. Cheng Kit Yin, Kelly is interested by virtue of her shareholding in GreaterChina and is the chairman of GreaterChina, and Mr. Kam Shing and Dr. Lau Lap Ping are non-executive directors of GreaterChina, are set out in note 36 to the financial statements.

Save as disclosed above, no contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company 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**

Save as the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having an interest of 5% or more of the issued share capital of the Company as at 31 July 2004.

## **CONNECTED TRANSACTIONS**

Details of the disclosable connected transactions of the Group are set out in note 36 to the financial statements.

## **MAJOR SUPPLIERS AND CUSTOMERS**

The five largest customers of the Group for the year accounted for approximately 8.2% of the Group's turnover. The Group's largest customer accounted for approximately 4.2% of its turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers were less than 22.7% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates nor those shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest customers.

## **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.

## **COMPLIANCE WITH CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31 July 2004 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.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 July 2004 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

## AUDITORS

Messrs. Ernst & Young were appointed as auditors of the Company on 29 July 2003 in succession to Messrs. Deloitte Touche Tohmatsu which were resigned on 11 July 2003.

Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company on 12 October 2004 in succession to Messrs. Ernst & Young which were resigned on 23 August 2004.

Messrs. HLB Hodgson Impey Cheng retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

**Yip Kwong, Robert**

*Chairman*

Hong Kong, 29 November 2004