

The directors submit their report together with the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries (the "Group") are investment holding. During the year, the Group has been engaged principally in the investments in listed and unlisted companies.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 18.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in share capital of the Group are set out in note 15 of the accounts.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 16 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 10 to the accounts.

DIRECTORS

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

Dr. PANG Shuen Wai, Nichols

Ms. AU Shuk Yee, Sue

Mr. KITCHELL, Osman Bin
(appointed on 10 January 2005)

Mr. QI Qing
(appointed as executive director on 27 January 2004; resigned as executive director and reappointed as non-executive director on 24 May 2004; resigned as non-executive director on 9 January 2005)

Mr. WONG Man Ho, William
(resigned on 4 February 2004)

Mr. LAM Ping Cheung[#]

Mr. CHUNG Kong Fei, Stephen[#]
(appointed on 16 March 2004)

Mr. TSANG Wing Ki[#]
(appointed on 23 September 2004)

Mr. WONG Ying Seung, Asiong[#]

[#] *Independent non-executive directors*

In accordance with Article 157 of the Company's Articles of Association, Ms. AU Shuk Yee, Sue, and Dr. PANG Shuen Wai, Nichols will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 123 of the Company's Articles of Association, Mr. KITCHELL, Osman Bin, Mr. CHUNG Kong Fei, Stephen and Mr. TSANG Wing Ki will retire at the forthcoming annual general meeting and, being eligible, offer them for re-election.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 47.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

1. Investment Management Agreement

Pursuant to an investment management agreement dated 5 November 2003 between the Company and CU Investment Management Limited ("CUIM"), CUIM has been providing the Group with investment management services from 5 November 2003 to 4 November 2004. Under this arrangement, CUIM was entitled to a monthly management fee payable in advance at 1.0% per annum of the net asset value of the Group at the end of preceding month on the basis of actual number of days in the relevant calendar month over a year of 365 days. The aggregate of management fee and the bonus paid/payable to CUIM for the year amounted to HK\$995,386 (2003: HK\$148,546).

On 5 November 2004, the Company and CUIM entered into a new investment management agreement (the "New Investment Management Agreement") in which the investment management fee was revised to HK\$50,000 per month. The New Investment Management Agreement will expire on 31 December 2005.

Dr. PANG Shuen Wai, Nichols, an executive director of the Company, is also a director of CUIM. Accordingly, the said arrangements with CUIM constitute a connected transaction under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and also related parry transactions under the accounting standards issued by Hong Kong Institute of Certified Public Accounts as disclosed in Note 20 to the accounts.

CUIM was formerly a wholly-owned subsidiary of HMI but ceased to be a wholly-owned subsidiary on 8 June 2004.

CUIM is wholly-owned subsidiary of Heritage International Holdings Limited ("Heritage"), which is a substantial shareholder of the Company as at 31 December 2004.

Mr. Wong Man Ho, William ("Mr. Wong"), a former executive director of the Company, holds 361,800 shares in China United International Holdings Limited ("CUIHL"), being approximately 0.26% of the issued share capital of CUIHL (whose shares are listed on the Stock Exchange of Hong Kong Limited) which indirectly holds approximately 42.30% of HMIL during the year when Mr. Wong was an executive director of the Company.

2. Brokerage Services and Margin Financing Facilities Arrangement

Chung Nam Securities Limited (“CNSL”) and Radland International Limited (“Radland”) are engaged in the business of securities dealing and trading. The Company utilizes the services of each of CNSL and Radland through the opening of margin trading accounts with CNSL and Radland to deal in securities of listed companies in accordance with the investment objective and policies of the Company. During the Period, the net margin financing interest and brokerage fee paid to CNSL amounted to HK\$137,421 and HK\$450,721 respectively (2003: Nil and HK\$76,841) and the net margin financing interest and brokerage fee paid to Radland amounted to HK\$0.34 and HK\$39,117 (2003: Nil) respectively.

Pursuant to the placing agreements dated 18 December 2003 and 27 February 2004 respectively (“Placing Agreements”) between the Company, CU Corporate Finance Limited (“CUCF”) and CNSL, CUCF and CNSL were appointed as the Financial Advisor and Placing Agent to the Company in connection with the share placement of 40,000,000 ordinary shares of HK\$0.10 each and the share placement of 48,000,000 ordinary shares of HK\$0.10 each, on a best effort basis (the “Share Placements”). Upon completion of the Share Placements, CUCF and CNSL received fees equivalent to 0.5% and 1.5% of the gross proceeds respectively.

CNSL and CUCF are deemed connected person of the Company under the Listing Rules. However, as the total fee payable to CUCF was under HK\$1 million, the transactions were exempted from any disclosure and shareholders approval requirements under Chapter 14 of the Listing Rules. The placing of new shares was completed on 8 January 2004 and 30 March 2004 respectively. Placing fees paid to CNSL amounted to HK\$88,800 and HK\$144,000 and the financial advisory fee paid to CUCF amounted to HK\$29,600 and HK\$48,000 respectively.

CNSL, CUCF and Radland are the wholly-owned subsidiaries of HMI and the issued share capital of HMI is beneficially owned as to 42.03% by CUIHL on 31 December 2004

CNSL, CUCF, CUIM and Radland are a deemed connected person of the Company under the Listing Rules. However, the brokerage services and margin financing facilities arrangement, and the investment management agreements as the total fee payable to CNSL, CUCF, Radland and CUIM were under HK\$1 million, the transactions were exempted from any disclosure and shareholders approval requirements under Chapter 14 of the Listing Rules.

Apart from the above, no other contracts of significance in relation to the Company’s business to which the Company or 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.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

(I) Ordinary shares of HK\$0.10 each in the Company ("Shares")

As at 31 December 2004, the interest of the directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as notified to the Company were as follow:

Name of director	Nature of interest	Number of Shares	% of the relevant issued share capital
Mr. WONG Man Ho, William	Personal	300,000	0.078%
Mr. QI Qing	Personal	20,000	0.005%

All the interests stated above represent long position. As at 31 December 2004, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO or so notified to the Company.

Mr. WONG and Mr. QI resigned as directors of the Company on 4 February 2004 and 9 January 2005 respectively.

(II) Share options

Under the share option scheme which was approved by the shareholders of the Company on 2 May 2003 (the "Share Option Scheme"), the directors of the Company may grant options to those participants who, in the opinion of the Board, have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest. No share options were granted under the New Scheme during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangement 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.

None of the directors of the Company (including their spouse and children under 18 years of age) had any interests in, or had been granted, or exercised any rights to subscribe for, shares in the Company and its associated corporations within the meaning of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following shareholders with interests of 5% or more of the issued share capital of the Company were recorded in the register maintained by the Company pursuant to section 336 of the SFO (as defined in the SFO):

Long positions:

Name of shareholder	Notes	Capacity and nature of interest	Number of shares held	% of share holding
Lo Ki Yan, Karen	(a)	Investor	94,450,666	24.59
Heritage International Holdings Limited	(b)	Investor	38,203,333	9.95
Radford Capital Investment Limited	(c)	Investor	33,878,666	8.82
J.P. Morgan Chase & Co.		Investment Manager	15,260,000	3.97

Notes:

- (a) These shares were held by Collier Assets Limited ("Collier Assets"). Collier Assets is wholly and beneficially owned by Ms. Lo Ki Yan Karen.
- (b) These shares were held by Dollar Group Limited ("Dollar Group"). Dollar Group is a wholly-owned subsidiary of Coupeville Limited, a company wholly-owned by Heritage International Holdings Limited.
- (c) These shares were held by Winning Horsee Limited ("Winning Horsee"). Winning Horsee is wholly and beneficially owned by Radford Capital Investment Limited.

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interest and short position in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

RENEWAL OF INVESTMENT MANAGEMENT AGREEMENT

On 5 November 2003 the Company entered into an investment management agreement with CUIM for a term of one year starting from 5 November 2003 (the "2003 Investment Management Agreement").

Pursuant to the 2003 Investment Management Agreement, the Company paid to CUIM a monthly investment management fee payable in advance at 1.0% per annum of the net asset value within 14 calendar days after the Valuation Date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, the Company had not paid to CUIM any annual performance fee.

The 2003 Investment Management Agreement expired on 4 November 2004.

On 5 November 2004, the Company and CUIM entered into a new investment management agreement (the "Investment Management Agreement") with revision in the investment management fee to HK\$50,000 per month instead of referring to the Net Asset Value. The new Investment Management Agreement will expire on 31 December 2005.

Dr. PANG Shuen Wai, Nichols, an executive director of the Company, is also a director of CUIM.

CHANGE OF CUSTODIAN

On 31 December 2004, the Company and Standard Chartered Bank terminated the custodian agreement signed on 13 December 2002 with effect from 1 October 2004. Kingston Securities Limited is the custodian of the Company in relation to the investments which the Company may from time to time deposit with it.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its ordinary shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares during the year.

PUBLIC FLOATATION

The Company confirmed that a minimum of 25 per cent of total issued share capital of the Company is in public hands based on the information currently available to the Board and is in compliance with Rule 8.08 of the Listing Rules.

POST BALANCE SHEET EVENTS

(I) Issue of New Shares

On 10 January 2005, the Company entered into an agreement with an independent third party (the "Subscriber") to issue 15,998,000 ordinary shares of HK\$0.10 each (the "Subscription Shares") at HK\$0.14 per share, raising net proceeds of approximately HK\$2.18 million which will be utilized for working capital. The Subscription Shares of 15,998,000 ordinary shares of HK\$0.10 each were subsequently allotted and issued to the Subscriber on 28 January 2005.

(II) Proposed increase in authorised share capital, proposed capital reorganisation and refreshment of share option mandate limit

On 11 January 2005, the Company announced that it intended to put forward the following proposals:

- (a) to increase the authorised share capital to HK\$500,000,000 by creation of ordinary shares of HK\$0.01 each in the capital of the Company ("New Shares") as shall be necessary;
- (b) to reduce the issued share capital of the Company by cancelling the issued and paid-up capital to the extent of HK\$0.09 on each issued share thereby reducing the nominal value of each issued share from HK\$0.10 to HK\$0.01;
- (c) to subdivide every unissued share into 10 unissued New Shares; and
- (d) to refresh the share option scheme mandate limit.

Shareholders of the Company in an extraordinary general meeting held on 28 February 2005 subsequently approved the Proposals. The proposed capital reorganisation, however, is subject to the following conditions being fulfilled:

- (a) Compliance with any conditions which the Grand Court of the Cayman Islands (the "Court") may impose;
- (b) The confirmation of the capital reduction by the Court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the Court order and the minute containing the particulars required under the Companies Laws; and
- (c) The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares.

(III) Additional investment of HK\$3,000,000 made to HMI

On 14 January 2005, the Group further invested HK\$3,000,000 to purchase 4,000,000 additional shares of HMI, at a price of HK\$0.75 per share.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year, in compliance with the Code of Best Practice as set out in the Listing Rules (the "Code of Best Practice") except that independent non-executive directors of the Company are not appointed for a specified term as recommended in Paragraph 7 of the Code of Best Practice. According to the Articles of Association of the Company, independent non-executive directors of the Company will retire by rotation and their appointment will be reviewed when they are due for re-election. In the opinion of the directors of the Company, this meets the same objective of the Code of Best Practice.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee of the Company comprises the three independent non-executive directors, namely Messrs. LAM Ping Cheung, WONG Ying Seung, Asiong and TSANG Wing Ki. Two meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers.

On behalf of the Board
PANG Shuen Wai, Nichols
Executive Director

Hong Kong, 18 March 2005