



Report of the Directors



The directors submit their annual report and the audited financial statements for the year ended 31st December 2004 (the “Year”).

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. During the Year, the Group is engaged principally in the investments in listed securities in Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2004 are set out in the consolidated income statement on page 21.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the Year in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

CAPITAL STRUCTURE AND SHARE CAPITAL

Details of the movements during the Year in the share capital of the Company are set out in note 17 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the Year are set out in note 18 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the Year neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s own securities.

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DIRECTORS

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

Mr. CHUNG Yuk Lun, Chairman

Mdm. MA Chi Wing

Mr. NAKAJIMA Toshiharu

Mr. SZETO Siu Kit (appointed on 11th January 2005)

Mr. CHAN Sze Hung#

Dr. LIN Michael#

Mdm. KWOK Wai Ming# (appointed on 6th January 2005)

Mr. SHIMAZAKI Koji#

Mr. WONG Kai Cheong# (appointed on 30th September 2004)

Mr. GREER Thomas Francis Jr. (resigned on 28th February 2005)

Independent non-executive directors

According to article 88(1) of the Company's articles of association, Mdm. Ma Chi Wing, Mr. Nakajima Toshiharu and Mr. Shimazaki Koji, who are subject to retirement by rotation, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at 31st December 2004, the Company had not been notified of any other person (other than the directors or chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

No 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.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31st December 2004, none of the directors, chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required 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.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year was the Company or 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. The Company did not grant any right to subscribe for the shares in the Company to any directors or chief executive of the Company or their respective spouse or children under the age of 18 during the Year.

PLEDGE OF ASSETS

Details of pledge of assets are set out in note 21 to the financial statements.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme are set out in note 22 to the financial statements.

CONNECTED TRANSACTIONS

The following connected transactions occurred during the Year.

1. Custodian Agreement

On 11th February 2002 Standard Chartered Bank (the "Custodian") entered into the custodian agreement with the Company pursuant to which the Custodian agreed to provide services to the Company including the safe custody and physical settlement of the securities in the investment portfolio of the Company and its subsidiaries, and the collection of dividends and other entitlements in respect of such securities. The custodian agreement will continue in force until terminated by either the Company or the Custodian giving to the other not less than 90 days' notice in writing expiring at any time. During the Year, the Group has paid to the Custodian HK\$5,323 (2003: HK\$5,746).

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CONNECTED TRANSACTIONS *(continued)*

1. Custodian Agreement *(continued)*

The Custodian is regarded as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the custodian agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

2. Brokerage Services and Margin Financing Facilities Arrangement

Chung Nam Securities Limited ("CNSL") is engaged in the business of securities dealing and Chung Nam Commodities Limited ("CNCL") is engaged in the business of commodities trading. The Company and its subsidiaries may utilize the services of each of CNSL and CNCL through the opening of margin trading accounts with CNSL and trading accounts with CNCL to deal in securities of listed companies and commodity trading contracts in accordance with the investment objective and policies of the Company; and may enter into margin financing facilities arrangement with CNSL to finance investments in accordance with the investment objective and policies of the Company. During the Year, the Group has paid CNSL net margin financing interest and brokerage fee of approximately HK\$180,000 and HK\$638,000 respectively (2003: HK\$123,000 and HK\$230,000 respectively.) No trading account was maintained with CNCL during the Year.

CNSL and CNCL were the fellow subsidiaries of CU Investment Management Limited ("CUIM") and thus were regarded as connected persons of the Company for the purpose of Listing Rules. On 8th June 2004 CUIM was sold and thus CNSL and CNCL were no longer connected persons of the Company.

3. Investment Management Agreements

CUIM has been appointed as the investment manager of the Company for a term of three years commencing from 3rd November 2003 to 2nd November 2006. According to the investment management agreement, aggregate investment management fee of 1% per annum of the net asset value of the Company will be payable monthly in advance to CUIM.

CUIM is regarded as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the investment management agreement constitutes a continuing connected transaction of the Company.

The aggregate of investment management fee paid/payable to CUIM for the Year amounted to HK\$1,718,602 (2003: HK\$1,571,916).

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CONNECTED TRANSACTIONS *(continued)*

4. Grant of Waiver

The Company has applied to and been granted by the Stock Exchange for a waiver from strict compliance with the disclosure and shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the brokerage services and margin financing facilities arrangement for the initial term of three years and the investment management agreement for the three financial years ending 31st December 2006 ("On-going Connected Transactions") respectively. The conditions on which the Stock Exchange granted a waiver in respect of the brokerage services and margin financing facilities arrangement have been disclosed in the prospectus of the Company dated 15th February, 2002. The Stock Exchange has indicated that a waiver in respect of the On-going Connected Transactions has been granted based on the following conditions:

1. the On-going Connected Transactions shall be:–
 - (a) entered into in the ordinary and usual course of business of the Company;
 - (b) conducted on normal commercial terms and on arm's length basis;
 - (c) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (d) the aggregate amount of the annual investment management fees payable to CUIM under the investment management agreement will be 1% per annum of the net asset value of the Company as at the Valuation Date on the basis of the actual number of days in the relevant calendar month over a year of 365 days and will be payable monthly in advance to CUIM;
2. the aggregate amount of the On-going Connected Transactions for each financial year of the Company shall not exceed the higher of either HK\$10 million or 3% of the book value of the Company's net tangible assets in the relevant financial year (the "Cap Amount");
3. the independent non-executive directors shall review the On-going Connected Transactions annually and confirm in the Company's next and each successive annual report that these have been conducted in the manner as stated in paragraphs 1 and 2 above;

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CONNECTED TRANSACTIONS *(continued)*

4. Grant of Waiver *(continued)*

4. the Company's auditors shall review the On-going Connected Transactions annually and confirm in a letter to the Board (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:–

- (a) the On-going Connected Transactions have received the approval of the Board;
- (b) the On-going Connected Transactions have been entered into in accordance with the terms of the investment management agreement;
- (c) the aggregate value of the On-going Connected Transactions does not exceed the Cap Amount as stated in paragraph (2) above; and

where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the letter referred to above, the Directors shall contact the Listing Division of the Stock Exchange immediately; and

5. brief details of the On-going Connected Transactions shall be disclosed as required under Rule 14A.45 of the Listing Rules in the Company's next and each successive annual report.

5. Confirmation from Independent Non-Executive Directors

The Company's Independent non-executive directors have reviewed the transactions pursuant to the investment management agreement dated 3rd November 2003, the brokerage services and the margin financing facilities arrangement respectively and confirm that:

- (a) the transactions pursuant to the investment management agreement, the brokerage services and the margin financing facilities arrangement have been entered into by the Company in the ordinary and usual course of its business and are conducted in accordance with the terms of the investment management agreement, or in respect of the brokerage services and the margin financing facilities arrangement on terms no less favourable than those offered by each of the connected companies to independent third parties;

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CONNECTED TRANSACTIONS *(continued)*

5. Confirmation from Independent Non-Executive Directors *(continued)*

- (b) the transactions pursuant to the investment management agreement have been entered into on normal commercial terms and on arm's length basis;
- (c) the transactions pursuant to the brokerage services and the margin financing facilities arrangement have been entered into on arm's length basis and normal or better commercial terms;
- (d) the transactions pursuant to the investment management agreement, the brokerage services and the margin financing facilities arrangement have been entered into on terms that are fair and reasonable so far as the shareholders of the Company and the Company are concerned;
- (e) the value of the annual (pro-rata) investment management fee payable to the investment manager do not exceed 1% per annum of the net asset value of the Company and none of the performance management fee shall be paid or payable to the investment manager;
- (f) the aggregate amount of the On-going Connected Transactions for the Year does not exceed the higher of HK\$10 million or 3% of the book value of the Company's net tangible assets in the Year; and
- (g) the annual aggregate value of the brokerage fee and the margin financing facilities interest do not exceed the higher of HK\$20 million or 10% of the net asset value of the Company in each financial year for the relevant period.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, during the Year, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

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AUDIT COMMITTEE

The audit committee, currently comprising five independent non-executive directors, has reviewed with management the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters of the Company.

During the Year, the audit committee, comprising four independent non-executive directors held three meetings and performed the following duties:

Reviewed and commented on the Company's unaudited interim financial statements and interim report, the draft announcement in respect of placing of new shares dated 1st June 2004 and the circular in respect of the open offer dated 22nd November 2004..

PRE-EMPTIVE RIGHTS

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

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting to re-appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board

CHUNG Yuk Lun

Chairman

Hong Kong, 13th April 2005