

# REPORT OF THE DIRECTORS

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 14 to the financial statements.

During the year, the Company acquired additional equity interests in Triple Luck Investments Limited ("Triple Luck"), which became a wholly-owned subsidiary of the Company thereafter. The principal activities of Triple Luck is investment holding.

Apart from the above, there were no significant changes in the nature of the Group's principal activities during the year.

## **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 to 62.

An interim dividend of 0.15 HK cents per ordinary share was distributed to the Company's shareholders on 19 November 2004. The directors recommend the payment of a final dividend of 0.325 HK cents per ordinary share in respect of the year ended 31 December 2004, to shareholders whose name appeared on the register of members on 22 June 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

## **SUMMARY FINANCIAL INFORMATION**

The following is a summary of the published consolidated results of the Group for the five years ended 31 December 2004 and the consolidated assets, liabilities and minority interests of the Group for the last five financial years. The information has been extracted from the published audited financial statements of the Company, after appropriate adjustments and reclassifications. This summary does not form part of the audited financial statements.

## REPORT OF THE DIRECTORS

### SUMMARY FINANCIAL INFORMATION *(continued)*

#### RESULTS

	Year ended 31 December				
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	<b>701,466</b>	334,252	101,890	110,891	113,425
Operating profit	<b>121,062</b>	80,348	36,322	28,559	11,796
Share of profits and losses of associates	—	(621)	1,696	4,703	(22,226)
Negative goodwill on acquisition of interest in an associate recognised as income	—	633	13,290	5,715	4,752
Profit/(loss) before tax	<b>121,062</b>	80,360	51,308	38,977	(5,678)
Tax	<b>(7,537)</b>	1,521	(7,401)	(4,940)	(7,771)
Profit/(loss) before minority interests	<b>113,525</b>	81,881	43,907	34,037	(13,449)
Minority interests	<b>(32,274)</b>	(27,151)	(13,259)	(13,618)	(10,619)
Net profit/(loss) from ordinary activities attributable to shareholders	<b>81,251</b>	54,730	30,648	20,419	(24,068)

#### ASSETS, LIABILITIES AND MINORITY INTERESTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>	2001 <i>HK\$'000</i> <i>(Restated)</i>	2000 <i>HK\$'000</i> <i>(Restated)</i>
Total assets	<b>2,980,952</b>	2,781,803	2,200,944	1,944,340	2,014,814
Total liabilities	<b>(1,312,713)</b>	(1,499,922)	(1,257,121)	(1,100,907)	(1,094,309)
Minority interests	<b>(667,025)</b>	(564,648)	(288,662)	(294,887)	(311,242)
	<b>1,001,214</b>	717,233	655,161	548,546	609,263

**FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 63 to 65.

**PROPERTIES HELD FOR SALE**

Details of the Group's properties held for sale are set out in note 20 to the financial statements. Further details of the Group's properties held for sale are set out on page 63.

**SHARE CAPITAL**

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

**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.

**PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

**RESERVES**

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

**DISTRIBUTABLE RESERVES**

At the balance sheet date, the Company's reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$871,454,000, of which HK\$13,586,000 has been proposed as a final dividend for the year.

**MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 77% of the total sales for the year and sales to the largest customer included therein amounted to 39%. Purchases from the Group's five largest suppliers accounted for 91% of the total purchases of the Group and purchases from the largest supplier included therein amounted to 26%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

# REPORT OF THE DIRECTORS

## DIRECTORS

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

### Executive directors

Mr. Lau Chi Yung, Kenneth	<i>(Chairman)</i>
Mr. Lau Michael Kei Chi	<i>(Vice-Chairman)</i>
Mr. Tsang Pak Chung, Eddy	<i>(resigned on 1 August 2004)</i>
Mr. Cho Po Hong, Jimmy	<i>(resigned on 28 September 2004)</i>

### Non-executive directors

Mr. Tsang Pak Chung, Eddy	<i>(appointed on 1 August 2004 and resigned on 28 September 2004)</i>
Mr. Tong Wui Tung, Ronald	<i>(resigned on 28 September 2004)</i>

### Independent non-executive directors

Mr. Choy Tak Ho	
Mr. Lee Siu Man, Ervin	
Mr. Wong Yim Sum	<i>(appointed on 28 September 2004)</i>

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company. In accordance with the Company's bye-laws, Mr. Lau Michael Kei Chi, Mr. Choy Tak Ho, Mr. Lee Siu Man, Ervin and Mr. Wong Yim Sum will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from those transactions disclosed in note 34 to the financial statements, no director had a material interest, either directly or indirectly, in any material contract of significance to the business of the Group to which the Company, or any of its holding companies or subsidiaries was a party during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2004, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the 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 Issuers of the Listing Rules (the "Model Code"), were as follows:

### Long position in the Company's ordinary shares

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Mr. Lau Chi Yung, Kenneth	Corporate	2,481,424,000	59.36

The above shares are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his family.

### Long position in shares and underlying shares of the associated corporations

Name of director	Name of associated corporation	Relationship with the Company	Shares/Equity derivatives	Number of shares/equity derivatives held	Capacity and nature of interest	Percentage of associated corporation's issued share capital
Mr. Lau Chi Yung, Kenneth	Oriental Explorer Holdings Limited	Company's subsidiary	Ordinary shares	1,019,154,999	Corporate	56.62
			Share options	19,500,000	Directly beneficially owned	N/A
Mr. Tsang Pak Chung, Eddy#	Oriental Explorer Holdings Limited	Company's subsidiary	Share options	19,500,000	Directly beneficially owned	N/A

# Mr. Tsang Pak Chung, Eddy resigned as a director of the Company on 28 September 2004.

The interest of Mr. Lau Chi Yung, Kenneth in the shares of Oriental Explorer Holdings Limited are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his family.

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares of the Company and its associated corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Power Resources Holdings Limited <i>(Note)</i>	Through a controlled corporation	2,481,424,000	59.36
Lucky Speculator Limited <i>(Note)</i>	Directly beneficially owned	2,195,424,000	52.52
Desert Prince Limited <i>(Note)</i>	Directly beneficially owned	286,000,000	6.84
Opal Dragon Investments Limited	Directly beneficially owned	<u>281,665,344</u>	<u>6.74</u>

*Note:* Power Resources Holdings Limited was deemed to have a beneficial interest in 2,481,424,000 ordinary shares of the Company by virtue of its indirect interests through Lucky Speculator Limited and Desert Prince Limited which held shares in the Company.

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' interests and short positions in shares and underlying shares of the Company and its associated corporations" 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.

### CONNECTED TRANSACTIONS

Further details of the connected transactions are set out in note 34 to the financial statements.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

### **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the provisions of the Company’s bye-laws.

### **MODEL CODE OF SECURITIES TRANSACTION**

The Company has adopted the Model Code as the Company’s code of conduct for dealing in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

### **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose 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.

### **AUDITORS**

Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. Ernst & Young with effect from 31 December 2004. Save as aforesaid, there had been no other changes of the Company’s auditors in the past three financial years.

A resolution for the appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Lau Chi Yung, Kenneth**

*Chairman*

Hong Kong

15 April 2005