

Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2004.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries include property development, property leasing and provision of building management services in Hong Kong and infrastructure facilities in the Mainland. Other particulars of the subsidiaries are set out in note 16 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2004 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 28 to 98.

The Board of Directors recommend a final dividend of HK\$0.025 (2003: HK\$0.02) per share for the year ended 31 December 2004. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be dispatched on or before 17 June 2005.

Property, Plant and Equipment

Movements in property, plant and equipment during the year are set out in note 14 to the financial statements.

Subsidiaries and Associates

Particulars of the Group's principal subsidiaries and associates are set out in notes 16 and 17 to the financial statements.

Borrowings and Interest Capitalised

Particulars of the borrowings of the Group at the balance sheet date are set out in note 25 to the financial statements.

During the year, the Group has not capitalised any interest (2003: Nil).

Share Capital

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

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Reserves

Movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 34 and in note 32 to the financial statements respectively.

Warrants

Particulars of warrants are set out in note 31 to the financial statements.

Convertible Bonds

Particulars of convertible bonds are set out in note 27 to the financial statements.

Share Options

Particulars of the share options granted are set out in note 30 to the financial statements.

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 100.

Properties

Particulars of the major properties held by the Group are set out on page 99.

Directors

The Directors of the Company are listed on page 2. The Directors' biographical information is set out on pages 5 to 7.

In accordance with the Company's bye-laws, Mr. Heng Kwo Seng, Mr. Kwan Kai Cheong and Ms. Ho Suk Yin who were appointed during the year shall hold their respective office until the forthcoming annual general meeting and, being eligible, offer themselves for election. In addition, Mr. Kwan Chai Ming, shall retire from office in the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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Directors' Service Contracts

Non-Executive Directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's bye-laws.

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 and Chief Executive's Interests in shares and Underlying Shares

(a) *Directors' Interests in the Company*

As at 31 December 2004, the interests of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571) (the "SFO")) which are required to be (i) notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) Long positions in the shares:

Name of Director	Capacity	Number of Shares	Approximate Percentage of Shareholding
Foo Kam Chu, Grace	Interest of controlled corporation	81,482,505 (Note)	67.25
	Beneficial owner	96,000	0.08
Tse Chun Kong, Thomas	Interest of Spouse	6,000	0.00
	Beneficial owner	723	0.00
Kwan Chai Ming	Beneficial owner	40,000	0.03

Note: The 81,482,505 shares are held by Ko Bee Limited, the entire issued share capital of which is held by Foo Kam Chu, Grace.

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- (ii) Long position in underlying shares of equity derivatives of the Company — interest in bonus warrants each of which is convertible into one share at the subscription price of HK\$2.00 (subject to adjustment):

Name of Director	Capacity	Number of Underlying Shares held as Bonus Warrants	Approximate Percentage of Underlying Shares
Tse Chun Kong, Thomas	Interest of Spouse	1,000	0.00
	Beneficial owner	120	0.00

- (iii) Long positions in underlying shares of equity derivatives of the Company — interests in share options of the Company (being granted and remained outstanding):

Name	Capacity	Number of Shares in the Option	Exercise Period	Price of Grant	Subscription Price per Share
Foo Kam Chu, Grace	Beneficial owner	76,000	02/07/2001 to 24/02/2007	HK\$1.00	HK\$2.97
		200,000	06/01/2005 to 05/01/2010	HK\$1.00	HK\$1.47
Tse Chun Kong, Thomas	Beneficial owner	50,000	02/07/2001 to 24/02/2007	HK\$1.00	HK\$2.97
		60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
		90,000	06/01/2005 to 05/01/2010	HK\$1.00	HK\$1.47
Chan Wai Ling	Beneficial owner	60,000	02/07/2001 to 24/02/2007	HK\$1.00	HK\$2.97
		60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
		90,000	06/01/2005 to 05/01/2010	HK\$1.00	HK\$1.47
Kwan Chai Ming	Beneficial owner	20,000	01/06/2001 to 24/02/2007	HK\$1.00	HK\$12.40
		10,000	02/01/2002 to 24/02/2007	HK\$1.00	HK\$2.97
		75,000	06/01/2005 to 05/01/2010	HK\$1.00	HK\$1.47
Liu Hanbo	Beneficial owner	60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
		90,000	06/01/2005 to 05/01/2010	HK\$1.00	HK\$1.47
Meng Qinghui	Beneficial owner	60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
		90,000	06/01/2005 to 05/01/2010	HK\$1.00	HK\$1.47

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- (iv) Long positions in underlying shares of equity derivatives of the Company - interests in convertible bonds each of which is convertible into one share at the conversion price of HK\$1.68 (subject to adjustment).

Name of Director	Capacity	Principal Amount of Convertible Bonds Issued	Number of Underlying Shares
Foo Kam Chu, Grace	Interest of Controlled Corporation	HK\$148,499,490	88,392,554 (Note)

Note: These underlying shares are held by Ko Bee Limited, a company wholly owned by Madam Foo Kam Chu, Grace who is deemed, by virtue of the SFO, to be interested in these underlying shares.

(b) *Directors' Interests in Associated Corporations*

Name of Director	Name of Associated Corporation	Capacity	Number and Class of Shares	Percentage of Shareholding
Foo Kam Chu, Grace	Ko Bee Limited	Beneficial owner	1 ordinary share	100

Save as disclosed above, as at 31 December 2004, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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Director's Right to Acquire Shares and Debentures

Save as disclosed above, at no time during the year ended 31 December 2004, were rights to subscribe for equity or debt securities of the Company granted to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive as recorded in the register required to be kept under Part XV of the SFO, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable any such persons to acquire any such rights in any other body corporate.

Substantial Shareholders

As at 31 December 2004, the persons other than a director or chief executive of the Company who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, were as follows:

(a) *Long positions in the Shares*

Name of Shareholder	Capacity	Number of Shares	Approximate Percentage of Shareholding
Ko Bee Limited	Beneficial owner	81,482,505	67.25
China Ocean Shipping (Group) Company (Note)	Interest of a controlled corporation	7,937,664	6.55
Peaktrade Investments Limited (Note)	Beneficial owner	4,447,104	3.67
Graceful Nice Limited (Note)	Beneficial owner	3,490,560	2.88

Note: China Ocean Shipping (Group) Company is deemed (by virtue of the SFO) to be interested in 7,937,664 shares together held by both Peaktrade Investments Limited and Graceful Nice Limited as they are its indirect subsidiaries.

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(b) *Long Positions in Underlying Shares of Equity Derivatives of the Company — Interest in the Warrants of the Company:*

Name of Shareholder	Capacity	Units of Warrant	Number of Underlying Shares
China Ocean Shipping (Group) Company (Note 1)	Interest of a controlled corporation	1,322,944	1,322,944
Peaktrade Investments Limited (Note 1)	Beneficial owner	741,184 (Note 2)	741,184
Graceful Nice Limited (Note 1)	Beneficial owner	581,760 (Note 2)	581,760

Notes:

1. China Ocean Shipping (Group) Company is deemed (by virtue of the SFO) to be interested in 1,322,944 underlying shares together held by both Peaktrade Investments Limited and Graceful Nice Limited as they are its indirect subsidiaries.
2. 741,184 and 581,760 units of bonus warrant of the Company had been granted to Peaktrade Investments Limited and Graceful Nice Limited respectively and these bonus warrant remained unexercised.

(c) *Long positions in underlying shares of equity derivatives of the Company — interest in the convertible bonds of the Company:*

Name of Shareholder	Capacity	Principal Amount of Convertible Bonds	Number of Underlying Shares
Ko Bee Limited	Beneficial owner	HK\$148,499,490	88,392,554

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Directors' Interests in Contracts

Save as disclosed in (i) the paragraph under the heading of "Director's Right to Acquire Shares and Debentures" above and (ii) paragraphs (a) to (g) under the heading of "Related Party Transactions" in note 36 to the financial statements, no contracts of significance in relation to the Company's business to which the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Major Customers and Suppliers

During the year, approximately 2% of the Group's purchases were attributable to the Group's largest supplier and approximately 5% of the Group's purchases were attributable to the Group's five largest suppliers.

During the year, approximately 8% of the Group's turnover were attributable to the Group's largest customer and approximately 24% of the Group's turnover were attributable to the Group's five largest customers.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or customers.

Connected Transactions

During the year, the following connected transactions (as defined under Chapter 14A of the Listing Rules), which were not exempted under Rule 14A.31 of the Listing Rules and in relation to which, disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with, were entered into by the Company:

- (a) On 13 February 2004, with a view to facilitate the Company to raise fund for its future business development and general working capital, Ko Bee Limited ("Ko Bee") entered into an agreement with Quam Securities Company Limited and the Company for the placement of 5,500,000 existing ordinary shares at a placing price of HK\$2.20 each to institutional, professional and/or other investors who are independent third parties and the subscription of 13,939,688 new shares at the same price by Ko Bee. The total consideration of approximately HK\$30,670,000 was satisfied partly by offsetting against the unsecured loan granted by Ko Bee to the Company (the "Loan") with accrued interest for an amount of approximately HK\$18,570,000 and the balance of approximately HK\$12,100,000 by cash payment.

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- (b) On 17 March 2004, the Company entered into a loan capitalisation agreement with Ko Bee for the subscription by Ko Bee 17,000,000 shares of HK\$0.10 each of the Company at the subscription price of HK\$2.55 each. The total consideration of HK\$43,350,000 was set-off against Loan with accrued interest.
- (c) On 17 June 2004, the Company entered into an agreement (the “Agreement”) with Ko Bee for the subscription by Ko Bee of the convertible bonds of the Company in the aggregate principal amount of HK\$148,499,490 which was set-off against the outstanding principal and interest of the Loan calculated up to and inclusive of the date before the Completion Date (as defined in the Agreement). Upon full conversion of the convertible bonds, 88,392,554 conversion shares will be issued at the conversion price of HK\$1.68 (subject to adjustment) each.

Purchase, Sale or Redemption of the Company’s Listed Securities

During the year, the Company had purchased a total of 398,000 shares of the Company at an aggregate consideration of HK\$634,440 on the Stock Exchange and all these shares were cancelled during the year, details of which were as follows:

Method of Purchase	Month of Purchase	Number of Share Purchased	Highest Price/Share (HK\$)	Lowest Price/Share (HK\$)	Aggregate Consideration (HK\$)
On the Stock Exchange	September 2004	232,000	1.62	1.55	369,800
	October 2004	166,000	1.60	1.58	264,640
Total		398,000			634,440

The Directors considered that the aforesaid shares were purchased at a discount to the net asset value per share and resulted in an increase in the net asset value per share then in issue. Save as disclosed herein, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s listed securities during the year.

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.

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Corporate Governance

Save that non-executive directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's bye-laws, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2004. The Company has received from each of the independent non-executive directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, it is confirmed that there is sufficient public float of the Company's shares in the market as at 21 April 2005, the latest practicable date prior to the issue of this annual report.

Auditors

Messrs. Grant Thornton was appointed on 3 April 2003 as auditors of the Company to fill the vacancy arising from the resignation of Messrs. Moores Rowland on 20 February 2003. Starting from the financial year ended 31 December 2002, the financial statements of the Company are audited by Messrs. Grant Thornton.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Grant Thornton as auditors of the Company.

Closure of Register of Members

The Register of members of the Company will be closed from Tuesday, 24 May 2005 to Monday, 30 May 2005 (both days inclusive) during which no transfer of share will be registered. In order to qualify for the final dividend, all transfer of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 23 May 2005.

By order of the Board
Foo Kam Chu, Grace
Chairman

Hong Kong, 21 April 2005