

Report of the Directors

The directors present 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. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. 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 18 to 79.

The directors do not recommend the payment of any dividend in respect of the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out on page 80. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in notes 31 and 32 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company had no reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

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MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

DIRECTORS

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

Executive directors:

Mr. Zhang Honghai	<i>(appointed on 31 March 2004)</i>
Mr. Ng Kong Fat, Brian	
Mr. E Meng	
Mr. Li Kangying	<i>(appointed on 15 March 2005)</i>
Mr. Wang Yong	<i>(appointed on 15 March 2005)</i>
Mr. Cao Wei	<i>(appointed on 15 March 2005)</i>
Dr. Yu Xiaoyang	<i>(appointed on 15 March 2005)</i>
Mr. Zhao Jifeng	<i>(resigned on 15 March 2005)</i>
Dr. Mao Xiang Dong, Peter	<i>(resigned on 8 February 2004)</i>

Independent non-executive directors:

Mr. Cao Guixing	
Prof. Liu Wei	<i>(appointed on 30 September 2004)</i>
Dr. Jin Lizuo	<i>(appointed on 30 September 2004)</i>
Mr. Feng Ching Yeng, Frank	<i>(resigned on 30 September 2004)</i>

In accordance with the Company's articles of association, Mr. E Meng, Mr. Li Kangying, Mr. Wang Yong, Mr. Cao Wei, Dr. Yu Xiaoyang, Prof. Liu Wei and Dr. Jin Lizuo will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Cao Guixing, Prof. Liu Wei and Dr. Jin Lizuo, and as at 12 April 2005 still considers them to be independent.

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 9 of the annual report.

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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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 39 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies and fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests 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 (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held	Capacity and nature of interest	Percentage of the Company's issued share capital
Mr. Ng Kong Fat, Brian	8,792,755	Through a controlled corporation	1.78

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions in ordinary shares of associated corporation of the Company:

Name of director	Name of associated corporation	Relationship with the Company	Numbers of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's subsidiary	1,462,000	Directly beneficially owned	21.5

The interests of the directors in the share options of the Company and its associated corporation are separately disclosed in note 32 to the financial statements and under the heading "Share option scheme" below, respectively.

In addition to the above, Mr. Ng Kong Fat, Brian 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.

Save as disclosed above, as at 31 December 2004, none of the directors and chief executive and their associates 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 as 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 "Share option scheme" below and in the share option scheme disclosures in note 32 to the financial statements, 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 subsidiaries, holding companies and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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SHARE OPTION SCHEME

Details of the share options granted by the Company in the prior years to the directors and employees are set out in note 32 to the financial statements.

In addition, at 31 December 2004, the interests of a director of the Company in options to subscribe for shares of Beijing Enterprises Holdings Limited ("BEHL"), the Company's holding company, under the share option scheme of BEHL were as follows:

Name of director	Number of options held	
	Note (a)	Note (b)
Mr. E Meng	50,000	450,000

Notes:

- (a) These options were granted on 3 March 1998 at an exercise price of HK\$17.03 per share. The options can be exercised at any time in the next 10 years commencing on 1 September 1998. No such options were exercised during the year.
- (b) These options were granted on 23 June 1998 at an exercise price of HK\$17.03 per share. The options can be exercised in nine equal portions. The first portion is exercisable at any time commencing on 1 January 1999 and one additional portion becomes exercisable on 1 January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1 January 2007 and, if not otherwise exercised, will lapse on 1 January 2009. No such options were exercised during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the following interests and short positions 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:

Long positions in ordinary shares of the Company:

Name	Note	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Idata Finance Trading Limited ("IFTL")	(a)	Directly beneficially owned	275,675,000	55.81
BEHL	(a)	Through a controlled corporation	275,675,000	55.81
Beijing Holdings Limited ("BHL")	(a)	Through a controlled corporation	275,675,000	55.81
Illumination Holdings Limited		Directly beneficially owned	49,825,613	10.09

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions in ordinary shares of the Company: *(continued)*

Note:

- (a) IFTL is a direct wholly-owned subsidiary of BEHL. BEHL is held indirectly as to 66.5% by BHL. Accordingly, the shares in which IFTL is shown to be interested are also the shares in which BEHL and BHL are interested.

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions 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.

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.

CONNECTED TRANSACTIONS

Pursuant to a deed entered into on 10 February 2004, Prime Technology Group Limited ("PTG") and E-tron Limited ("E-tron"), wholly owned subsidiaries of the Company, agreed to transfer the entire issued share capital of Wisdom Elite Holdings Limited and the 51% of the issued share capital of Astoria Innovations Limited ("Astoria"), respectively, to Xteam Software International Limited ("Xteam"). 1,897,546,070 and 217,967,375 of Xteam shares were issued to PTG and E-tron, respectively, as consideration for the transactions. Upon completion of the transactions in August 2004, the Group held an interest of approximately 56.3% in Xteam and Xteam became a subsidiary of the Group. As Mr. Cai Tianhong, a substantial shareholder of Astoria and a director of Astoria and its subsidiary, also sold 3.9% of the issued share capital of Astoria to Xteam, the transaction constituted a connected transaction, details of which are set out in the Company's circular dated 30 June 2004.

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 non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings 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.

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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

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

ZHANG HONGHAI

Chairman

Hong Kong

12 April 2005