

# REPORT OF THE DIRECTORS

The directors herein 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. The subsidiaries are principally engaged in property development, design and marketing of consumer packaged electronics.

## GEOGRAPHICAL ANALYSIS OF OPERATIONS

An analysis of the Group's turnover and contribution to operating loss/profit for the year by principal activities and markets is set out in note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 21.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2004 (9 months ended 31 December 2003: Nil).

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years/periods is set out as follows:

|  | <b>Year ended<br/>31 December<br/>2004<br/>HK\$'000</b> | Nine<br>months ended<br>31 December<br>2003<br>HK\$'000 | Year ended 31 March |                  | Fifteen<br>months<br>ended<br>31 March<br>2001<br>HK\$'000 |
|--|---|---|---------------------|------------------|--|
|  |   |   | 2003<br>HK\$'000    | 2002<br>HK\$'000 |  |
| Turnover                                       | <b>1,215</b>  | 11,708  | 100,576             | 215,338          | 675,396  |
| Profit/(Loss) after taxation                   | <b>5,217</b>  | 63,545  | 190                 | 52,152           | (630,461)  |
| Interest of minority shareholders              | <b>-</b>  | -   | -                   | -                | 2,000  |
| Profit/(Loss) attributable to the shareholders | <b>5,217</b>  | 63,545  | 190                 | 52,152           | (628,461)  |
| Total assets                                   | <b>3,842,209</b>  | 3,815,885   | 3,664,720           | 3,742,806        | 325,479  |
| Total liabilities                              | <b>(1,422,807)</b>                                      | (1,401,700)   | (1,300,529)         | (1,387,303)      | (351,982)  |
|  | <b>2,419,402</b>  | 2,414,185   | 2,364,191           | 2,355,503        | (26,503)   |

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 13 to the financial statements.

## ASSOCIATES

Particulars of the Company's and the Group's associates are set out in note 14 to the financial statements.

# R EPORT OF THE DIRECTORS

## BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Group's bank loans, overdrafts and other borrowings as at 31 December 2004 are set out in notes 22 to 24 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2004, the contributed surplus of the Company amounting to HK\$1,971,857,000 (At 31 December 2003: HK\$1,971,857,000), is a distributable reserve.

## MAJOR CUSTOMERS AND SUPPLIERS

|                                   | <b>31 December<br/>2004</b> | 31 December<br>2003 |
|-----------------------------------|-----------------------------|---------------------|
| Sales                             |                             |                     |
| – the largest customer            | <b>56%</b>                  | 51%                 |
| – five largest customers combined | <b>100%</b>                 | 83%                 |
| Purchases                         |                             |                     |
| – the largest supplier            | <b>74%</b>                  | 60%                 |
| – five largest suppliers combined | <b>99%</b>                  | 75%                 |

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested in the above suppliers or customers at any time in the year.

## DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out in note 30 to the financial statements.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which compete or may compete with the business of the Group.

## PENSION COSTS

Details of pension costs in respect of the year are set out in note 29 to the financial statements.

# REPORT OF THE DIRECTORS

## DIRECTORS

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

|                                    |                                  |
|------------------------------------|----------------------------------|
| Mr. YU Pun Hoi ( <i>Chairman</i> ) |                                  |
| Mr. ZHANG Hong Ren                 |                                  |
| Dr. ZHAO Liang                     |                                  |
| Mr. YU Lin Hoi #                   |                                  |
| Mr. LAM Bing Kwan #                |                                  |
| Mr. QIN Tian Xiang*                | (appointed on 30 September 2004) |
| Ms. WEI Jingyun*                   | (appointed on 30 September 2004) |
| Mr. WU Chen*                       | (appointed on 30 September 2004) |
| Mr. CHAN Lap Stanley*              | (resigned on 30 September 2004)  |
| Mr. Francisco Paredes ACOSTA *     | (resigned on 30 September 2004)  |

# Non-executive directors

\* Independent non-executive directors

The Company has received annual confirmation from each of the existing independent non-executive directors confirming her/his independence to the Company pursuant to rule 3.13 of the Listing Rules and the Company considers that such directors are independent of the Company.

In accordance with bye-laws 99 and 182(vi) of the Company's Bye-Laws, Mr. Lam Bing Kwan shall retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election at the forthcoming Annual General Meeting.

In accordance with bye-law 102(B) of the Company's Bye-Laws, Mr. Qin Tian Xiang, Ms. Wei Jingyun and Mr. Wu Chen may hold office only until the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Executive Directors

**Mr. Yu Pun Hoi**, aged 46, the brother of Mr. Yu Lin Hoi. He is the Chairman of the Company. Mr. Yu has extensive experience in various industries including internet technology, properties investment and development, and media. Mr. Yu joined the Board on 20 September 2000. He is currently the Chairman and substantial shareholder of Sino-i Technology Limited ("Sino-i"), the controlling shareholder of the Company.

**Mr. Zhang Hong Ren**, aged 52, graduated from Beijing Institute of Economics in the PRC with a Master's degree in Economics in 1984. He has been in senior and management positions in economic research, media and computer technology industries since 1991. Mr. Zhang joined the Board on 20 September 2000. Mr. Zhang is currently an executive director and the Chief Executive Officer of Sino-i, the controlling shareholder of the Company.

**Dr. Zhao Liang**, aged 47, graduated from University of Debuque in 1992 with an MBA and from People's University of China in 2000 with a Ph.D. in Economics. He has extensive management experience in banking sector. Prior to joining the Group, Dr. Zhao has been in various senior management positions at Industrial and Commercial Bank of China for 14 years. He joined the Board on 20 September 2000.

## BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

### Non-executive Directors

**Mr. Yu Lin Hoi**, aged 61, the elder brother of Mr. Yu Pun Hoi, holds a master degree in Marine from both Liberia and Canada in 1972 and 1981 respectively, and also an MBA in Hong Kong in 2003. He has extensive experience in marketing, management on manufacture and administration on transportation. Mr. Yu joined the Board on 14 January 2002.

**Mr. Lam Bing Kwan**, aged 55, graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. He has been in management positions in the banking and financial industry for more than 10 years. Mr. Lam joined the Board on 20 September 2000 and was re-designated as non-executive director on 2 April 2002. Mr. Lam is currently a non-executive director of Sino-i, the controlling shareholder of the Company and an independent non-executive director of Lai Sun Development Company Limited, Lai Fung Holdings Limited and eForce Holdings Limited. The shares of all of these companies are listed on the main board of the Stock Exchange.

### Independent Non-executive Directors

**Mr. Qin Tian Xiang**, aged 39, graduated from the National University of Defense Technology, Electronics Technique Department. He has been the president of Beijing Xin Shen Jian Economic & Technique Development Company since 1994. He was the chairman and chief executive officer of Hongkong Broad Communication Limited Corporation during the period from 1999 to 2003. He was the director and senior vice-president of Wool Worth Limited Corporation and the chairman and general manager of Beijing Jing Wei Real Estate Limited Corporation during the period from 1995 to 2001. Mr. Qin joined the Board on 30 September 2004. He is currently an independent non-executive director and audit committee member of Sino-i, the controlling shareholder of the Company.

**Ms. Wei Jingyun**, aged 54, obtained the Certificate of Certified Public Accountant issued by the Ministry of Finance of the People's Republic of China in 1994, Certificate of Licensed Registered Tax Agent of the People's Republic of China in 1998 and Professional Credential for Internal Auditors issued by the China Institute of Internal Audit in 2004. She has been a Vice-Director of Beijing Zhong De Accounting Office since August 1999 and has pursued her accounting profession in the People's Republic of China for over 35 years. Ms. Wei joined the Board on 30 September 2004.

**Mr. Wu Chen**, aged 33, graduated from the Law Institute of China Academy of Social Sciences (CASS), Beijing with a Master of Law (LLM) and has been a PhD Candidate since 2002. He has been a China Registered Attorney at Law and China Enterprise Legal Counselor in 1994 and 1996 respectively. Mr. Wu has been an attorney at law and the founding partner of Beijing Li He Law Firm since July 2004 and was an attorney at law in Anhui Tongye Law Firm in the PRC in the past 10 years. Mr. Wu joined the Board on 30 September 2004.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31 December 2004, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (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 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 Companies ("Model Code") were as follows:

### The Company

- (i) Interests in shares in issue

| Name of director | Number of shares of HK\$0.01 each | Nature of interest | Approximate percentage holding |
|------------------|-----------------------------------|--------------------|--------------------------------|
| Yu Pun Hoi       | 20,266,720,000                    | Corporate          | 67.71%                         |

*Note:* Mr. Yu Pun Hoi ("Mr. Yu"), together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Sino-i. These 20,266,720,000 shares are collectively held by Victorious Limited, Robina Profits Limited and Ko Tact Limited which are all wholly owned subsidiaries of Sino-i. As such, Mr. Yu is taken to be interested in these shares for the purposes of Part XV of the SFO.

- (ii) Interests in underlying shares

| Name of Director | Notes | Number of underlying shares |
|------------------|-------|-----------------------------|
| Yu Pun Hoi       | 1     | 11,111,111,111              |
|                  | 2     | 18,761,668,837              |

*Notes:*

- On 30 July 2004, the Company issued and Robina Profits Limited ("Robina") subscribed for the convertible loan notes (the "South Sea Notes") in an aggregate principal amount of HK\$200,000,000 pursuant to the subscription agreement (the "Subscription Agreement") entered into on 29 December 2003 between Robina and the Company. The South Sea Notes are convertible into a total of 11,111,111,111 shares of the Company at an initial conversion price of HK\$0.018 each (subject to adjustments). Robina is a wholly owned subsidiary of Sino-i. As such, Mr. Yu is taken to be interested in these shares for the purposes of Part XV of the SFO.
- Pursuant to the sale and purchase agreement (the "Sale and Purchase Agreement") entered into on 29 December 2003 between the Company as purchaser and First Best Assets Limited, Rosewood Assets Limited, Phippen Limited, Staverley Assets Limited, 中信信息科技投资有限公司 (CITIC Information Technology Investment Company Limited), Macro Resources Limited and Empire Gate Industrial Limited (collectively, the "Vendors") as vendors relating to the acquisition by the Company of a total of 12,515,795,316 shares (the "Sales Shares") in Sino-i, the Company agreed to acquire from the Vendors the Sale Shares (of which 8,658,325,316 Sale Shares are held by companies controlled by Mr. Yu) at a consideration of HK\$976,334,238, representing a price of approximately HK\$0.078 each. Half of the consideration will be satisfied by an issue of a total of 27,120,395,500 shares in the Company (the "Consideration Shares") at a price of HK\$0.018 each to the Vendors upon completion of the Sale and Purchase Agreement. Those Vendors which are companies controlled by Mr. Yu are entitled to a total of 18,761,668,837 Consideration Shares under the Sale and Purchase Agreement. As such, Mr. Yu is taken to be interested in these 18,761,668,837 Consideration Shares for the purposes of Part XV of the SFO.

# R EPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS AND SHORT POSITIONS (continued)

### The Company (continued)

#### (iii) Interests in debentures

On 30 July 2004, the Company issued and Robina subscribed for the South Sea Notes in an aggregate principal amount of HK\$200,000,000 pursuant to the Subscription Agreement. Robina is a wholly owned subsidiary of Sino-i. As such, Mr. Yu is taken to be interested in the South Sea Notes for the purposes of Part XV of the SFO.

### Associated Corporation

As disclosed above, Mr. Yu together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Sino-i and Sino-i is the holding company of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company holds in its associated corporations within the meaning of Part XV of the SFO. Sino-i is a company the shares of which are listed on the Stock Exchange which is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2004, the interests and short positions of the directors of the Company in shares and underlying shares were as follows:

#### (i) Interests in shares in issue

| Name of director | Personal interest | Number of shares of HK\$0.10 each |                 |               | Total interest |
|------------------|-------------------|-----------------------------------|-----------------|---------------|----------------|
|                  |                   | Corporate interest                | Family interest |               |                |
| Yu Pun Hoi       | –                 | 8,658,325,316                     | 44,000,000      | 8,702,325,316 |                |
| Zhang Hong Ren   | 504,000           | –                                 | –               | 504,000       |                |

#### (ii) Interests in underlying shares

| Name of director | Number of underlying shares* | Nature of interest |
|------------------|------------------------------|--------------------|
| Zhang Hong Ren   | 10,000,000                   | Personal           |
| Zhao Liang       | 5,000,000                    | Personal           |
| Lam Bing Kwan    | 18,000,000                   | Personal           |

\* Note: On 12 November 2004, share options to subscribe shares in Sino-i were granted to the directors of the Company by Sino-i as follows:

| Grantee          | Date of Grant | Exercise price per share | No of share options granted during the year | Exercisable period       |
|------------------|---------------|--------------------------|---|--------------------------|
| <b>Directors</b> |               |                          |   |                          |
| Zhang Hong Ren   | 12-11-2004    | HK\$0.16                 | 5,000,000                                   | 01-07-2005 to 30-06-2008 |
|                  |               | HK\$0.16                 | 5,000,000                                   | 01-07-2006 to 30-06-2008 |
| Zhao Liang       | 12-11-2004    | HK\$0.16                 | 2,500,000                                   | 01-07-2005 to 30-06-2008 |
|                  |               | HK\$0.16                 | 2,500,000                                   | 01-07-2006 to 30-06-2008 |
| Lam Bing Kwan    | 12-11-2004    | HK\$0.16                 | 9,000,000                                   | 01-07-2005 to 30-06-2008 |
|                  |               | HK\$0.16                 | 9,000,000                                   | 01-07-2006 to 30-06-2008 |

# R EPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS AND SHORT POSITIONS (continued)

### Associated Corporation (continued)

(iii) Short positions in shares

| Name of director | Number of shares | Nature of Interest |
|------------------|------------------|--------------------|
| Yu Pun Hoi       | 8,658,325,316    | Corporate          |

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 or 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.

## SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board. The Company has not granted any share options under the Scheme since its adoption. A summary of the Scheme is as follows:

(1) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any equity interests (the "Invested Entity").

(2) Participants

The participants include:

- a. any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity;
- b. any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity;
- c. any supplier of goods or services to any member of the Group or any Invested Entity;
- d. any customer of the Group or any Invested Entity;
- e. any person or entity that provides research, development or other technological support or other services to the Group or any Invested Entity;
- f. any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- g. any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.

## SHARE OPTION SCHEME (continued)

(3) Maximum number of shares available for subscription

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme any other share option scheme of the Company must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time.

(4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company in issue.

(5) Time of Acceptance

An offer of grant of an option may be accepted by a participant within 28 days from the date of the offer of grant of the option. A consideration of HK\$1 is payable on acceptance of the offer of grant of an option.

(6) Maximum period for exercising an option

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option.

(7) Basis of determining the subscription price

The subscription price for shares under the Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the share.

(8) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 August 2002 up to 28 August 2012.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party, and in which any directors 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.



# R EPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2004, those persons (other than directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| <b>Name of persons holding an interest or short position in shares and underlying shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO</b> | <b>Number of shares held</b> | <b>Number of underlying shares held</b> | <b>Approximate percentage of issued share capital of the Company *</b> | <b>Notes</b> |
|--|------------------------------|---|--|--------------|
| Kung Ai Ming   | 20,266,720,000               | 11,111,111,111                          | 67.71  | 1            |
|  | –                            | 18,761,668,837                          | –  | 1            |
| Sino-i Technology Limited  | 20,266,720,000               | 11,111,111,111                          | 67.71  | 2            |
| Victorious Limited   | 11,976,270,000               | –                                       | 40.01  | 2            |
| Ko Tact Limited  | 7,890,450,000                | –                                       | 26.36  | 2            |
| Robina Profits Limited   | 400,000,000                  | 11,111,111,111                          | 1.34   | 2            |
| Perfect Union Overseas Inc.  | 2,100,000,000                | –                                       | 7.02   | 3            |
| Fu Liang   | 2,100,000,000                | –                                       | 7.02   | 3            |
| First Best Assets Limited  | –                            | 4,333,786,998                           | –  | 4            |
| Rosewood Assets Limited  | –                            | 3,680,106,736                           | –  | 4            |
| Actinna Development Limited  | –                            | 8,580,881,605                           | –  | 4            |
| Righteous International Limited  | –                            | 2,166,893,498                           | –  | 4            |
| Macro Resources Limited  | –                            | 2,166,893,498                           | –  | 4 & 5        |
| CITIC Group  | 15,265,220,133               | 6,191,833,164                           | 50.99  | 5            |
| CITIC Capital Markets Holdings Limited   | 15,265,220,133               | –                                       | 50.99  | 5            |
| CITIC International Financial Holdings Limited   | 15,265,220,133               | –                                       | 51.00  | 5            |
| CITIC Pacific Limited  | 15,265,220,133               | –                                       | 50.99  | 5            |
| Golden Gateway Enterprises Inc.  | 15,265,220,133               | –                                       | 50.99  | 5            |
| Forever Glory Holdings Ltd.  | 15,265,220,133               | –                                       | 50.99  | 5            |
| Empire Gate Industrial Limited   | –                            | 4,333,786,997                           | –  | 6            |
| Yiu Kin Wai  | –                            | 4,333,786,997                           | –  | 6            |

\* For the avoidance of doubt, interests in underlying shares have not been taken into account when calculating the percentages set out above since these underlying shares have not been issued as at 31 December 2004.

### Notes:

- Ms. Kung Ai Ming is the spouse of Mr. Yu and is taken to be interested in the shares and underlying shares in which Mr. Yu is taken to have an interest as disclosed above.
- Victorious Limited, Ko Tact Limited and Robina are wholly owned subsidiaries of Sino-i and the interests held by them in the Company are included as the interest of Sino-i. On 30 July 2004, the Company issued and Robina subscribed for the South Sea Notes in an aggregate principal amount of HK\$200,000,000 pursuant to the Subscription Agreement. The South Sea Notes are convertible into a total of 11,111,111,111 shares of the Company at an initial conversion price of HK\$0.018 each (subject to adjustments). Robina is taken to be interested in these 11,111,111,111 shares for the purposes of Part XV of the SFO.
- Perfect Union Overseas Inc. is wholly owned by Mr. Fu Liang. As such, Mr. Fu Liang is taken to be interested in the 2,100,000,000 shares directly held by Perfect Union Overseas Inc.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS (continued)**

Notes: (continued)

4. First Best Assets Limited and Rosewood Assets Limited are taken to be interested in 4,333,786,998 and 3,680,106,736 Consideration Shares respectively under the Sale and Purchase Agreement. First Best Assets Limited, Rosewood Assets Limited and Actinna Development Limited are wholly owned by Mr. Yu. Phippen Limited is wholly owned by Actinna Development Limited. As such, Actinna Development Limited is taken to be interested in the 8,580,881,605 Consideration Shares in which Phippen Limited holds an interest. Macro Resources Limited is owned as to 60% by Righteous International Limited and Righteous International Limited is wholly owned by Mr. Yu. Righteous International Limited is taken to be interested in the 2,166,893,498 Consideration Shares in which Macro Resources Limited holds an interest. The interests of First Best Assets Limited, Rosewood Assets Limited, Actinna Development Limited and Righteous International Limited in the Company are included as part of the interest held by Mr. Yu.
5. Macro Resources Limited is owned as to 40% by Staverley Assets Limited. As such, Staverley Assets Limited is taken to be interested in the 2,166,893,498 Consideration Shares in which Macro Resources Limited holds an interest under the Sale and Purchase Agreement. In addition, Staverley Assets Limited itself is taken to be interested in 2,833,148,242 Consideration Shares and CITIC Information Technology Investment Company Limited is taken to be interested in 1,191,791,424 Consideration Shares under the Sale and Purchase Agreement. Both CITIC Information Technology Investment Company Limited and Staverley Assets Limited are indirectly wholly owned by CITIC Group. Their interests are included as part of the interest of CITIC Group.  
  
CITIC Capital Markets Holdings Limited is indirectly held as to 50% by CITIC Pacific Limited and as to 50% by CITIC International Financial Holdings Limited. Both CITIC International Financial Holdings Limited and CITIC Pacific Limited are companies the shares of which are listed on the Stock Exchange and in which CITIC Group controls a 56.38% and 28.80% interests respectively. Both Forever Glory Holdings Ltd. and Golden Gateway Enterprises Inc. are wholly owned subsidiaries of CITIC Pacific Limited. The interest held by CITIC Capital Markets Holdings Limited is included as part of the interests of Forever Glory Holdings Ltd., Golden Gateway Enterprises Inc., CITIC Pacific Limited, CITIC International Financial Holdings Limited and CITIC Group.
6. Empire Gate Industrial Limited is wholly owned by Mr. Yiu Kin Wai and its interest in the 4,333,786,997 Consideration Shares is included as part of the interest held by Mr. Yiu Kin Wai.

Save as disclosed above, as at 31 December 2004, no other person (other than a director or chief executive of the Company) had notified to the Company any interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under section 336 of the SFO.

## **RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS**

Details of related party transactions and connected transactions of the Company and the Group are set out in note 33 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws or the law in Bermuda.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

# R EPORT OF THE DIRECTORS

## **PUBLIC FLOAT**

Based on the publicly available information and to the best knowledge of the directors, the Company has maintained during the year sufficient public float as required under the Listing Rules.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice stipulated in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") in force prior to 1 January 2005 which remains applicable to this annual report, except that the non-executive directors are not appointed for a specific terms but are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all directors, they all confirmed that they have complied with the required standard set out in the Model Code.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, namely Ms. Wei Jingyun, Mr. Qin Tian Xiang and Mr. Wu Chen. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited accounts for the year ended 31 December 2004.

## **AUDITORS**

On 27 September 2001, Messrs. PricewaterhouseCoopers retired and Messrs. Grant Thornton was appointed auditors of the Company at the annual general meeting held. There have been no other changes of auditors in the past three years.

The financial statements have been audited by Messrs. Grant Thornton who retire and, being eligible, offer themselves for reappointment. A resolution will be proposed at the forthcoming annual general meeting for the reappointment of auditors of the Company.

On behalf of the Board

**Zhang Hong Ren**

Director

Hong Kong, 25 April 2005