

Report of the Directors

The Board of Directors submit their report together with the audited accounts for the year ended 31st December 2004

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in notes 14, 15 and 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS

The results for the year are set out in the consolidated profit and loss account on page 18.

DIVIDEND

The Board of Directors recommends the payment of a final dividend of HK\$0.01 per ordinary share, totalling HK\$11,736,917 (2003: HK\$14,084,300).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2004, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$5,133,748 (2003: HK\$32,625,673).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2004.

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SHARE OPTION

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme and any other schemes of the Company (including without limitation the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares may be issued upon exercise of all options to be granted under the Scheme must not exceed 113,132,370 shares, being 10 percent of shares in issue as at the date of approval of the Scheme by the Shareholders in the Annual General Meeting. The total number of options available for issue under the Scheme as at the date of the annual report is 113,132,370, representing approximately 9.64% of shares in issue of the Company as of that date.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of an option is HK\$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the Directors (which shall be less than 10 years from the date of the grant of the relevant option and commences six months after the date of grant) at the price to be determined by the Board of Directors but not less than the highest of the nominal value of the shares, the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

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Details of share options remain outstanding as at 31st December 2004 are as follows:–

	Options held at 1 January 2004	Options exercised during year	Options lapsed during year	Options held at 31 December 2004	Exercise Price HK\$	Date of Grant	Exercise Period
Directors:–							
Lao Yuan Yi	7,338,100	–	–	7,338,100	0.342	26/09/1995	26/03/1996-07/10/2005
	5,503,900	–	–	5,503,900	0.318	11/07/1996	11/01/1997-15/07/2006
	10,000,000	–	–	10,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
Xin Shulin, Steve	2,534,980	–	–	2,534,980	0.453	26/01/1995	26/07/1995-09/02/2005
	838,640	–	–	838,640	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	4,464,000	–	–	4,464,000	0.283	08/07/1998	08/01/1999-15/07/2008
Yeung Wai Kin	2,401,560	–	–	2,401,560	0.453	26/01/1995	26/07/1995-09/02/2005
	1,494,304	–	–	1,494,304	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	6,980,000	–	–	6,980,000	0.283	08/07/1998	08/01/1999-15/07/2008
Hu Yi Ming	1,000,000	–	–	1,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	2,300,000	–	–	2,300,000	0.283	08/07/1998	08/01/1999-15/07/2008
Employees	1,952	–	–	1,952	0.453	26/01/1995	26/07/1995-09/02/2005
	4,002,600	–	–	4,002,600	0.318	11/07/1996	11/01/1997-15/07/2006
	950,000	–	–	950,000	0.816	01/11/1997	01/05/1998-12/11/2007
	1,804,000	–	–	1,804,000	0.283	08/07/1998	08/01/1999-15/07/2008
	<u>56,614,036</u>	<u>–</u>	<u>–</u>	<u>56,614,036</u>			

The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to the participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

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Options in respect of shares in an associated corporation

	Associated corporation	Date of grant	Total options lapsed	Balance of options not exercised as at 31st December 2004	Exercise price	Exercise period
Directors:						
Lao Yuan Yi	China Assets (Holdings) Limited	21/05/2004	–	740,000	2.65	25/05/2004 – 23/05/2014
Yeung Wai Kin	China Assets (Holdings) Limited	21/05/2004	–	700,000	2.65	25/05/2004 – 23/05/2014

The above share options were granted under the share option scheme of China Assets (Holdings) Limited adopted on 19th May 2004.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr. LAO Yuan Yi
 Mr. XIN Shulin, Steve
 Mr. YEUNG Wai Kin
 Mr. HU Yi Ming

* Mr. KWOK Lam Kwong, Larry, J.P.

** Prof. WOO Chia Wei

** Mr. LIU Ji (appointed on 11th March 2004)

** Mr. YU Qi Hao (appointed on 17th March 2005)

* *Mr. Kwok Lam Kwong, Larry, J.P. has been re-designated from being Independent Non-executive Director to Non-executive Director of the Company with effect from 17th March 2005.*

** *Independent non-executive Directors*

Mr. Yeung Wai Kin, Mr. Liu Ji and Mr. Yu Qi Hao retire in accordance with the Company's articles of association and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors of the Company and senior management of the Group are set out as follows (with age in brackets):-

Mr. Lao Yuan-Yi (59). Chairman & Managing Director. Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Ltd, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development and worked at the PRC State Science & Technology Commission, Ministry of Communications of the Peoples Republic of China and the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

Mr. Xin Shu-Lin, Steve (51). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992. Mr. Xin is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated company which are listed on The Stock Exchange of Hong Kong Limited.

Mr. Yeung Wai-Kin (43). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 20 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated companies which are listed in The Stock Exchange of Hong Kong Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Mr. Hu Yi-Ming (42). Appointed as Director of the Company in 1998. He joined the Group in 1996 as Managing Director of its Assets Management Division. Prior to joining the Group, Mr. Hu was Vice President – Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr. Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Professor Woo Chia-Wei (67). Appointed as Independent Non-Executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited. President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Lenovo Holdings Limited. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR, and the Chinese People's Political Consultative Conference.

Mr. Kwok Lam-Kwong, Larry, J.P. (49). Appointed as Independent Non-Executive Director in 1994. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of the Princess Margaret/Kwai Chung Hospital, a member of the Traffic Accident Victims Assistance Advisory Committee and a member of the Trade and Industry Advisory Board in Hong Kong. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

Mr. Liu Ji (69). Appointed as Independent Non-Executive Director on 11th March 2004. Mr. Liu is the Honary President of China Europe International Business School in Shanghai. He holds the posts of Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social since 1993. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing.

Mr. Yu Qi-Hao (58). Appointed as Independent Non-Executive Director on 17th March 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. He is an independent advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai, and an independent non-executive director and a member of the audit committee of COL Capital Limited. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director of Shenying Wanguo (H.K.) Limited from 1995 to 1997 and a non-executive director from 1997 to 1998.

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Mr. Wang Jun-Yan (34). Joined the Company in October 1997, is the Managing Director of First Shanghai Financial Holding Limited, an immediate holding company of the financial service division of the Group. He is also director of China Assets (Holdings) Limited, the Company's associated company which is listed in The Stock Exchange of Hong Kong Limited. Mr. Wang has more than 11 years experience in investment banking and securities industry. Mr. Wang holds a bachelor's degree with a major in International Trade from the Zhongshan University and a master's degree in Finance from the University of Hong Kong. He has also studied in a Ph.D. program of Finance in the City University of New York.

Mr Mo Siu-Lun, Henry (42). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 22 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his postgraduate diploma in Engineering Management from City University of Hong Kong, a master's degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom and a master's degree in Electronic Business from City University of Hong Kong.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group'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.

DIRECTORS' INTERESTS IN SHARE EQUITY OR DEBT SECURITIES

At 31st December 2004, the interests of the Directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company under Section 352 of SFO or as notified to the Company are as follows:-

Number of ordinary shares of HK\$0.2 each in the Company:

Name of directors	Personal interests	Family interests	Corporate interests	Total	Percentage
Mr. Lao Yuan-Yi	42,080,000	–	75,308,000	117,388,000	10%
Prof. Woo Chia-Wei	–	72,000	–	72,000	0.006%

No Directors and chief executives has any interest of short positions in the shares or underlying shares of the Company. Arrangement on share options granted to Directors is set out in a separate section of this report.

Apart from the share option scheme stated below, at no time during the period was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors of the Company to hold any interests in the shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2004, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

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Ordinary shares of HK\$0.2 each in the Company

		Number of ordinary shares	
		Corporate interests	Percentage
China Assets (Holdings) Limited ("China Assets")	Long position	248,249,300	21.15%

China Assets is a Hong Kong listed company, which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital of the Company as at 31st December 2004.

MANAGEMENT CONTRACTS

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.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers respectively are both less than 30% for 2004 and 2003.

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CONNECTED TRANSACTION

The related party transactions disclosed in note 33 to the accounts constituted connected transactions under the Listing Rules.

China Assets Investment Management Limited ("CAIML"), a subsidiary of the Company entered into a management agreement (the "Management Agreement") with China Assets (Holdings) Limited ("China Assets") on 28th March 1991 (with amendments made on 8th April 1992 and 11th October 2004) whereby CAIML was appointed to act as investment manager of China assets and agreed to provide management services to China Assets. The Management Agreement will continue until 31st December 2006 and shall be renewed for further terms of 2 years each provided that the requirements of the Listing Rules are complied with before renewal. The Management Agreement may be terminated by either party by serving 6 months' written notice on the other party.

As at 31st December 2004, the Company is holding approximately 33.8% of the issued share capital of China Assets. China Assets is a substantial shareholder of the Company holding approximately 21.15% of the issued share capital of the Company. Mr. Lao Yuan Yi, a director of the Company and CAIML, Mr Yeung Wai Kin, a director of the Company and CAIML and Mr. Wang Jun Yan, a director of CAIML are interested in the Management Agreement to the extent that all of them are directors of China Assets. Mr. Shi Yucheng, Charlie, a former executive director of China Assets and CAIML, resigned from China Assets and CAIML on 2nd April 2004 and 27th April 2004 respectively. Mr. Tsui Che Yin, Frank, a non-executive director of China Assets who resigned on 14th April 2004, was interested in the Management Agreement to the extent that he was a shareholder of CAIML up to 18th January 2005.

Under the Management Agreement, CAIML is entitled to receive from China Assets a management fee at the rates of (i) 2.75% per annum on the aggregate cost to China Assets of the investment (less any provisions in respect thereof) held by it

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from time to time; and (ii) 1% per annum on the value of the uninvested net assets of China Assets. In addition, CAIML is entitled to performance bonus based on a specified formula on the return on net assets and net capital gains of China Assets. For the year ended 31st December 2004, the total annual amount paid by China Assets to CAIML under the Management Agreement was HK\$8,009,001. The Management Agreement constitutes a continuing connected transaction of the Company but only subject to reporting and annual review requirements under the Listing Rules.

As a result of the annual review of the Management Agreement as a continuing connected transaction, the directors of the Company (including the independent non-executive directors) confirm that the Management Agreement has been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:-

	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>
Total assets	<u>1,638,287</u>	<u>1,760,366</u>	<u>1,256,362</u>	<u>1,229,907</u>	<u>1,110,355</u>
Total liabilities (Including minority interests)	<u>307,960</u>	<u>500,570</u>	<u>96,110</u>	<u>125,663</u>	<u>114,979</u>
Total net assets	<u>1,330,327</u>	<u>1,259,796</u>	<u>1,160,252</u>	<u>1,104,244</u>	<u>995,376</u>
Turnover	<u>587,845</u>	<u>281,351</u>	<u>171,614</u>	<u>298,332</u>	<u>289,810</u>
Profit attributable to shareholders	<u>80,352</u>	<u>93,820</u>	<u>49,323</u>	<u>64,948</u>	<u>58,554</u>
Earnings per share					
– basic	<u>6.85 cents</u>	<u>8.00 cents</u>	<u>4.35 cents</u>	<u>5.78 cents</u>	<u>5.21 cents</u>
– fully diluted	<u>6.72 cents</u>	<u>7.88 cents</u>	<u>4.30 cents</u>	<u>5.71 cents</u>	<u>5.19 cents</u>

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

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COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers as set out in Appendix 10 of the Listing Rules ("Model Code"). Having made specific enquiry, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998. The Audit Committee comprises the non-executive Director, Mr. Kwok Lam Kwong, Larry, J.P. and the three independent non-executive Directors, Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LAO Yuan Yi

Chairman

Hong Kong, 18th April 2005