

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

Principal activities

The principal activity of the Company is investment holding.

The principal activities and other relevant details of the subsidiaries and associated companies are set out in notes 9 and 10 to the accounts respectively.

The Group's turnover and operating results are attributable to its principal activity of investment holding. The major contribution to net profit and loss is attributable to its investments in associated companies operating in Hong Kong and the Mainland China.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

The Company, being an investment holding company, has no supplier or customer. All the subsidiaries are either investment holding companies or dormant companies and have no supplier or customer.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 19.

The directors do not recommend the payment of a dividend for the year ended 31st December 2003.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 16 to the accounts.

Distributable reserves

The Company had no distributable reserves at 31st December 2003.

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 50.

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Purchase, sale or redemption of the Company's shares

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

Directors

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

- Lao Yuan Yi
 - Wang Jun Yan
 - Xin Shu Lin (alternate director to Lao Yuan Yi)
 - # Zhao Yu Qiao
 - # Tsui Che Yin, Frank
 - # Jiang Wei
 - # Yeung Wai Kin
 - * Robertson Peter Duncan Neil
 - * Fan Jia Yan
 - * Wu Ming Yu
 - Shi Yucheng, Charlie (resigned as director on 2nd April 2004)
- # *non-executive directors*
* *independent non-executive directors*

In accordance with the Articles of Association of the Company, all executive directors continue in office.

All non-executive directors were appointed for a term of two years.

Directors' service contracts

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

Biographical details of directors

Brief biographical details of directors are set out on pages 10 and 11.

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Connected transaction

The related party transactions disclosed in note 19 to the accounts constituted connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") with details as below.

Prior to the listing of securities of the Company on 15th April 1992, the Company entered into a management agreement (the "Management Agreement") with China Assets Investment Management Limited ("CAIML") on 28th March 1991 whereby CAIML was appointed to act as investment manager of the Company and agreed to provide management services to the Company and present suitable investment opportunities to the Company. The Management Agreement was subsequently amended on 8th April 1992. Although the Management Agreement does not provide a specific term, either the Company or CAIML may terminate the same by serving 6 months written notice on the other party. At the time the Management Agreement was entered into, CAIML was not a connected person of the Company within the definition of the Listing Rules.

On 2nd May 2001, First Shanghai Investments Limited ("FSIL"), a substantial shareholder of the Company, through its wholly-owned subsidiary acquired 30.9% equity interest in CAIML.

On 19th October 2001, the Code on Takeovers and Mergers of Hong Kong was amended and as a result of which the shareholding threshold for triggering a mandatory general offer was reduced from 35% to 30%. As a result of the reduction of the threshold, the definition of "associate" under the Listing Rules was changed and therefore CAIML has become an associate of FSIL and a connected person of the Company. Taking into account the on-going nature of the Management Agreement, the Management Agreement has become a continuing connected transaction of the Company.

On 22nd September 2003, as a result of a rights issue of CAIML, FSIL increased its shareholding in CAIML from 30.9% to 65.45% and CAIML has become a subsidiary of FSIL.

Under the Management Agreement, CAIML is entitled to receive from the Company a management fee at the rates of (i) 2.75% per annum on the aggregate cost to the Company of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of the Company. In addition, CAIML is entitled to performance bonus based on a specified formula on the return on net assets and net capital gains of the Company.

For the financial years 2001, 2002 and 2003, the total annual amounts paid by the Company to CAIML under the Management Agreement were US\$1,237,757 (approximately HK\$9,654,505), US\$1,232,363 (approximately HK\$9,612,431) and US\$1,055,508 (approximately HK\$8,232,962) respectively, and represented only around 1.59%, 1.51% and 1.16% of the value of consolidated net tangible assets of the Group in the relevant financial years. No performance bonus had been paid to CAIML for the financial years 2001, 2002 and 2003. As a result, independent shareholders' approval of the Management Agreement was exempted under the Listing Rules. As at the date of this report, the directors of the Company are not aware of any circumstances as a result of which the exemption may cease to apply.

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Connected transaction (*Continued*)

The directors of the Company confirm that none of them has any equity interest in CAIML or any personal interest in the Management Agreement except that (a) Mr. Lao Yuan Yi, a director of the Company, FSIL and CAIML, has an indirect interest in CAIML through his 3.59% personal interests and 6.42% corporate interests in FSIL; (b) Mr. Yeung Wai Kin, a director of CAIML, is also a director of FSIL and the Company; (c) Mr. Wang Jun Yan, a director of the Company, is also a director of CAIML; (d) Mr. Tsui Che Yin, Frank, a non-executive director of the Company, holds 3% equity interest in CAIML; and (e) Mr. Shi Yucheng, Charlie, a former director of the Company who resigned on 2nd April 2004, is also a director of CAIML.

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 their views 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.

An announcement will be made by the Company disclosing details of the continuing connected transaction shortly after the dispatch of the annual report 2003.

Directors' interests in contracts of significance

Save for the Management Agreement as disclosed in the section headed Connected transaction above, no other 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.

Save for the Management Agreement as disclosed in the section headed Connected transaction above, 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 and short positions in the shares of the Company and its associated corporations

As at 31st December 2003, no interests and short positions of the directors and chief executives of the Company in the shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Cap. 571) ("SFO")) were recorded in the register maintained by the Company under section 352 of the SFO or were notified to the Company.

At no time during the year was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

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Substantial shareholders' interests and short positions in the shares of the Company and its associated corporations

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 31st December 2003, the Company had been notified of the following interests of the substantial shareholders of the Company, being 5% or more of the Company's issued shares that carry a right to vote at general meetings of the Company.

Name	Type of interest	Number of ordinary shares held	Percentage of issued share capital
First Shanghai Investments Limited ("FSIL") (Note 1)	Corporate	25,162,866	33.83%
First Shanghai Direct Investments Limited ("FSDI") (Note 1)	Corporate	25,162,866	33.83%
Golad Resources Limited (Note 1)	Corporate	25,162,866	33.83%
Chen Dayou	Personal	8,405,000	11.30%
Deutsche Bank Aktiengesellschaft (Note 2)	Corporate	5,985,000	8.05%
Deutsche Bank AG, London Branch (Note 2)	Corporate	5,985,000	8.05%

Note:

- (1) Both FSDI and FSIL have corporate interests in the issued share capital of the Company through their direct or indirect share interests in Golad Resources Limited. Golad Resources Limited is wholly-owned by FSDI, which is, in turn, wholly-owned by FSIL.
- (2) Deutsche Bank Aktiengesellschaft has corporate interest in the issued share capital of the Company through its direct wholly-owned interest in Deutsche Bank AG, London Branch.

Save as disclosed above, no other shareholders of the Company had any beneficial or legal interests in 5% or more of the Company's issued shares that carry a right to vote in general meetings of the Company as recorded in the register maintained by the Company. All the interests described above represent long position in the shares of the Company and no short positions, deemed interests or derivative interests were recorded in the register maintained by the Company as at 31st December 2003.

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Compliance with the code of best practice of the Listing Rules

The Code of Best Practice as set out in Appendix 14 of the Listing Rules has been complied with by the Company throughout the year.

Audit Committee

By reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants, the written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company on 30th December 1998. The principal activities of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls. The Committee comprises three independent non-executive directors and a non-executive director.

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, 13th April 2004