

# Report of the Directors

The directors present their report to the shareholders together with the audited financial statements for the financial year ended 31st December 2003.

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## PRINCIPAL ACTIVITIES

The principal activity of the Company and of its subsidiaries is the holding of equity investments primarily in companies or other entities with business interests or involvement in the People's Republic of China or Hong Kong.

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## SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's principal subsidiaries, associates and jointly controlled entities at 31st December 2003 are set out on pages 60 to 67 of this report.

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## RESULTS

The results of the Group for the financial year ended 31st December 2003 are set out in the consolidated income statement as set out on page 38 of this report.

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## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on page 78 of this report.

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## DIVIDENDS

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31st December 2003.

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## SHARE CAPITAL

Details of the Company's authorised and issued share capital during the financial year are set out in note 15 to the financial statements on pages 71 to 72 of this report.

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## RESERVES

Movements in the reserves during the financial year are set out in note 16 to the financial statements on pages 73 to 75 of this report.

# Report of the Directors

## DIRECTORS

The directors of the Company during the financial year were:

- Mr. Liu Xiao Guang
- Mr. Cheng Bing Ren
- Mr. John Ashton Dare
- Mr. Lawrence H Wood (also known as Wu Yuk Shing or Hu Xu Cheng)
- Mr. Yu Sek Kee
- Mr. Liu Xue Min
- Mr. Poon Kai Leung
- Mr. Kelvin Tan Wee Peng
- Mr. Tong Ng Siu Yee
- Mr. Li Kai Cheong Samson
- Ms. Wu Suk Ching Annie
- Mr. Kwong Chun Wai Michael

Mr. Kelvin Tan Wee Peng resigned as director on 28th March 2003. Mr. John Ashton Dare, Mr. Li Kai Cheong Samson and Ms. Wu Suk Ching Annie retired as directors by rotation in accordance with Article 97 of the Company's articles of association at the annual general meeting held on 22 May 2003. Mr. Kwong Chun Wai Michael was appointed as director on 15th August 2003 and he will retire from the board of directors in accordance with Article 93 of the Company's articles of association at the forthcoming annual general meeting. Mr. Cheng Bing Ren and Mr. Tong Ng Siu Yee will retire by rotation from the board of directors in accordance with Article 97 of the Company's articles of association at the forthcoming annual general meeting. Mr. Cheng Bing Ren, Mr. Tong Ng Siu Yee and Mr. Kwong Chun Wai Michael, all being eligible, offer themselves for re-election.

None of the retiring directors 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.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES. UNDERLYING SHARES AND DEBENTURES

As at 31st December 2003, the interests or short positions of the Directors of the Company in the 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, Chapter 571 of the Laws of Hong Kong ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Company, to be notified to the Company and the Stock Exchange, were as follows:

### *Rights to acquire ordinary shares of the Company:*

A share option scheme was approved by the Company in an extraordinary general meeting held on 16th August 2001 under which the board of directors of the Company may, at its discretion, grant to any executive director or senior employee of the Company, or any director or senior employee of any subsidiaries from time to time of the Company, to subscribe for the Company's shares. Details of the share option scheme are set out in note 15 to the financial statements on page 72. Details of the movements of directors' interests in options during the year are as follows:

Name	Date of grant	Exercise price per share	Exercise period	Number of shares to be issued upon exercise of options at 01.01.03	Option granted during the year (01.01.03 – 31.12.03)	Number of shares to be issued upon exercise of options at 31.12.03
<b>Director</b>						
Mr. Liu Xiao Guang	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900
Mr. Cheng Bing Ken	27.11.01	HK\$0.298	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Mr. Lawrence H. Wood	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900
Mr. Yu Sek Kee	27.11.01	HK\$0.300	28.05.02 – 27.11.04	2,694,450	–	2,694,450

# Report of the Directors

Save as disclosed herein, as at 31st December 2003, none of the Directors of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Company, to be notified to the Company and the Stock Exchange.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to the Directors, as at 31st December 2003, the persons/ companies who have interests or short positions 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:

Name of Shareholder	No. of Ordinary Shares
ING Groep N.V.	85,140,000
N.V. Haagsche Herverzekering Maatschapping van 1836	85,140,000

*Note:*

For the avoidance of double counting, it should be noted that in accordance with the provisions of the SFO, ING Groep N.V. is deemed to be interested in the same parcel of shares of 85,140,000 held by N.V. Haagsche Herverzekering Maatschapping van 1836 by virtue of its interest in that company.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material beneficial interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

# Report of the Directors

## SHARE OPTION SCHEME

As at 31st December 2003, the particulars in relation to the share option scheme of the Company that are required to be disclosed under Rules 17.07 and 17.09 of Chapter 17 of the Listing Rules, were as follows:

### (A) SHARE OPTION SCHEME OF THE COMPANY

Since the adoption of the share option scheme of the Company on 16th August 2001, other than the options detailed below and the options which have been cancelled or lapsed in accordance with the terms of the above share option scheme, no options to subscribe for ordinary shares in the Company have been granted to any eligible participants under the share option scheme during the financial year.

Name	Date of grant	Exercise price per share	Exercise period	Number of shares to be issued upon exercise of options at 01.01.03	Option granted during the year (01.01.03 – 31.12.03)	Number of shares to be issued upon exercise of options at 31.12.03
<b>Director</b>						
Mr. Liu Xiao Guang	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900
Mr. Cheng Bing Ken	27.11.01	HK\$0.298	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Mr. Lawrence H. Wood	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900
Mr. Yu Sek Kee	27.11.01	HK\$0.300	28.05.02 – 27.11.04	2,694,450	–	2,694,450
Other Participant	27.11.01	HK\$0.298	28.05.02 – 27.11.04	5,388,900	–	5,388,900

# Report of the Directors

## **(B) SUMMARY OF THE SHARE OPTION SCHEME OF THE COMPANY IS SET OUT AS FOLLOWS:**

- Purpose: To give incentive to any executive director or senior employee of the Company, or any director or senior employee of any subsidiaries from time to time of the Company
- Participants: any executive director or senior employee of the Company, or any director or senior employee of any subsidiaries from time to time of the Company
- Total number of ordinary shares available for issue and percentage of the issued share capital that it represents as at the date of the annual report: 53,884,000 ordinary shares and 9.99% of the issued share capital
- Maximum entitlement of each participant: Not to exceed 1% of the issued share capital in any 12 month period
- Period within which the securities must be taken up under an option: 30 calendar months commencing from the expiration of the first 6 calendar months period after the offer date of the relevant option
- Minimum period for which an option must be held before it can be exercised: 6 calendar months after the offer date of the relevant option
- Amount payable on acceptance of an option: HK\$10

# Report of the Directors

▪ Period within which payments/calls/loans must be made/repaid:	Not applicable
▪ Basis of determining the exercise price	The closing price of the share on the date of acceptance of the relevant option or the average closing price of the 5 trading days preceding the day of acceptance of the relevant option, whichever is higher
▪ The remaining life of the share option scheme:	Valid until 16 August 2006 unless otherwise terminated under the terms of the option scheme

## MANAGEMENT CONTRACTS

Under an investment management agreement made between the Company and Baring Capital (China) Management Limited (then known as ING Luxfund Management (Hong Kong) Limited) (the "Investment Manager") dated 25th April 1994, the Investment Manager agreed to provide investment management services in relation to the investment portfolio of the Group for a period of three years from the date of the agreement. The Investment Manager, in accordance with the terms of the agreement as revised by a supplemental agreement dated 22nd May 1998 and a second supplemental agreement dated 7th January 1999, is entitled to a fee calculated at the rate of 2.00 per cent. per annum of the net asset value of the Company, payable quarterly in advance. The Investment Manager is also entitled, with effect from the financial year ended 31st December 1999, to receive an incentive fee calculated at (i) 10 per cent. of the realised profit of the Company for a financial year if the realised profit per issued share does not exceed 10 per cent.; (ii) 15 per cent. of the realised profit if the realised profit per issued share exceeds 10 per cent. but is below 15 per cent.; or (iii) 20 per cent. of the realised profit if the realised profit per share equals or exceeds 15 per cent. The agreement is determinable by either the Investment Manager or the Company giving to the other party not less than 6 months' prior notice of termination.

## Report of the Directors

Under an agreement between the Company and Internationale Nederlanden Capital Markets (Hong Kong) Limited ("INGCM") dated 25th April 1994, INGCM agreed to provide administrative services to the Company. The agreement is for an initial term of one year from the date of the agreement, which term may be renewed for a further term of two years subject to the agreement between the parties to the agreement. The agreement was assigned from INGCM to ING Management (Hong Kong) Limited (the "Administrator") with effect from 1st November 1994. Pursuant to the terms of a supplemental agreement entered into between the Company and the Administrator dated 25th July 1995, the term of appointment of the Administrator was renewed for a further term of two years commencing on 25th April 1995, which term may be renewed for a further term of two years subject to agreement between the Company and the Administrator. By a further supplemental agreement dated 22nd May 1998, the appointment of the Administrator was renewed subject to termination by either the Administrator or the Company giving to the other party not less than 6 months' prior notice of termination.

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### ARRANGEMENTS TO PURCHASE SHARES BY DIRECTORS

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

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### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the financial year.

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### INVESTMENTS

Details of the Group's investments as at 31st December 2003 are set out on pages 68 to 70.

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### BANK LOAN, OVERDRAFTS AND OTHER BORROWINGS

The Group has no bank loan, overdraft or other borrowing outstanding as at 31st December 2003.



# Report of the Directors

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## INTEREST CAPITALISED

There is no interest capitalised by the Group during the financial year.

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## AUDIT COMMITTEE

The Audit Committee comprises three Non-executive Directors, two of them being independent. This Committee acts in an advisory capacity and makes recommendations to the Board. It met on 14th April 2004 to review the Group's 2003 final results before it was tabled for the Board's approval.

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## CODE OF BEST PRACTICE

The Company has complied with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the financial year except that Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Article 97 of the Company's Articles of Association.

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## AUDITORS

The financial statements have been audited by KPMG, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board of Directors of  
**ING Beijing Investment Company Limited**  
**Liu Xiao Guang**  
*Chairman*

Hong Kong, 23 April 2004