

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 47 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 25 of the annual report.

The directors recommended the payment of a final dividend of HK\$0.06 per share for the year ended 31st December, 2003. The proposed final dividend will be paid on 3rd June, 2004 to the shareholders whose name appear on the register of members of the Company on 28th May, 2004, subject to the approval of the shareholders at the forthcoming annual general meeting.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 29 to the financial statements.

INVESTMENT PROPERTIES AND HOTEL PROPERTIES

At 31st December, 2003, the investment properties and hotel properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK\$698,440,000 and HK\$647,400,000 respectively. The surplus arising on revaluation of investment properties of HK\$24,636,000 has been charged to the consolidated income statement. The deficit arising on revaluation of hotel properties amounted to HK\$17,028,000, of which HK\$4,148,000 and HK\$9,660,000 (net of minority interests of HK\$3,220,000) have been charged to the consolidated income statement and the hotel properties revaluation reserve respectively.

Details of these and other movements in the investment properties and hotel properties of the Group for the year are set out in notes 13 and 14 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Wang Jun (*Chairman*)

He Ping (*Vice-Chairman*)

Li Shi Liang (*Managing Director*)

Chen Hong Sheng (appointed on 13th January, 2004)

Chan Tak Chi, William (appointed on 31st March, 2003)

Li Tong Zhou (resigned on 31st March, 2003)

Xie Da Tong (resigned on 13th January, 2004)

Independent non-executive directors:

Yao Kang, J.P.

Ip Chun Chung, Robert

Lam Tak Shing

In accordance with Article 99 of the Company's Articles of Association, Mr. Chen Hong Sheng, who was appointed as a director during the year will retire and being eligible, offers himself for re-election.

In accordance with Article 116 of the Company's Articles of Association, Messrs. Ip Chun Chung, Robert and Lam Tak Shing will retire and being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors lasts until his retirement by rotation as required by the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2003, the interest of the directors of the Company in the securities of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("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 were as follows:

Long positions

Share options of the Company

Name of director	Capacity	Number of options held	Number of underlying shares
Wang Jun	Beneficial owner	15,500,000	15,500,000
He Ping	Beneficial owner	15,500,000	15,500,000
Li Shi Liang	Beneficial owner	5,000,000	5,000,000
Xie Da Tong	Beneficial owner	11,800,000	11,800,000
		<u>47,800,000</u>	<u>47,800,000</u>

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2003.

SHARE OPTIONS

Particulars of the Company's share option scheme and movement in the Company's share options during the year are set out in note 30 to the financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section of "Directors' Interests in Securities" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of their interests and short positions in the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS *(continued)*
Long positions
Ordinary shares of HK\$0.5 each of the Company

Name of shareholder	Number of shares		Total number of shares	Percentage of the issued share capital of the Company
	Beneficial Owner	Held by Controlled Corporation(s)		
Musical Insight Holdings Limited	44,658,800	–	44,658,800	5.53%
Wincall Holding Limited	55,428,000	–	55,428,000	6.86%
Congratulations Company Ltd.	169,845,000	–	169,845,000	21.03%
Source Holdings Limited	228,398,760	100,086,800 <i>(Note 1)</i>	328,485,560	40.67%
Ting Shing Holdings Limited	–	498,330,560 <i>(Note 2)</i>	498,330,560	61.70%
Ringo Trading Limited	39,447,476	498,330,560 <i>(Note 3)</i>	537,778,036	66.59%
China Poly Group Corporation	–	537,778,036 <i>(Note 4)</i>	537,778,036	66.59%

Notes:

1. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 shares of the Company as a result of its direct holding of the shares and indirect holdings of the shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited.
2. Ting Shing Holdings Limited is deemed by the SFO to be interested in 498,330,560 shares as a result of its indirect holding of the shares through its subsidiaries, Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SFO to be interested in 537,778,036 shares as a result of its direct holding of the shares and indirect holding of the shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SFO to be interested in the shares directly and indirectly owned by Ringo Trading Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2003.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 45 to the financial statements. In the opinion of the directors who do not have any interest in those discloseable connected transactions, these transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

CONNECTED TRANSACTIONS *(continued)*

The independent non-executive directors of the Company had reviewed the connected transactions entered into between the Company and China Poly Group Corporation on 12th February, 2003 in respect of the renewal of leases of office tower and exhibition halls of Poly Plaza ("On-going Connected Transactions"). In their opinion:

1. the On-going Connected Transactions were entered into in the ordinary and usual course of business of the Company;
2. the On-going Connected Transactions were conducted on normal commercial terms;
3. the On-going Connected Transactions were entered into in accordance with the terms of the agreements; and
4. the aggregate amount of the rent payable under the agreements did not exceed HK\$10 million or 3% of the net tangible asset value of the Company and its subsidiaries, whichever is higher.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 46 to the financial statements.

AUDITORS

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Li Shi Liang
Managing Director

Hong Kong, 20th April, 2004