

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company continued to be an investment holding company. The principal activities of its subsidiaries continued to be property investment, property trading and investment holding. Details of these activities are set out in note 32 to the financial statements.

Over 50% of the Group's turnover for the year was derived from its property rental business in Hong Kong. An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

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 recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2004 which makes a total distribution of approximately HK\$16 million for the year ended 31 December 2004 (2003: HK\$12 million). Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 9 May 2005 to shareholders registered on 29 April 2005.

FIXED ASSETS

Movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held by the Group are set out on page 63.

Movements in the property held for development during the year are set out in note 16 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in notes 17 and 32 to the financial statements respectively.

ASSOCIATES

Particulars of the Group's interests in its principal associates are set out in note 18 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 21 and 22 and note 26 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserve available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$1,371 million (2003: HK\$1,383 million), of which HK\$16 million (2003: HK\$12 million) has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$94.5 million (2003: HK\$94.5 million) may be distributed in the form of fully paid bonus shares.

BANK LOANS

The Group's bank loans, which comprise term loans and revolving credit facilities, are secured by certain properties held by the Group. An analysis of these borrowings is set out in note 23 to the financial statements.

FINANCIAL SUMMARY

Results, assets and liabilities of the Group for the last five financial years are summarised on page 64.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and turnover for the year attributable to the Group's major suppliers and customers are as follows:

	2004	2003
	%	%
Purchases		
- the largest supplier	19	34
- five largest suppliers combined	55	65
Turnover		
- the largest customer	35	25
- five largest customers combined	76	47

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the suppliers or customers noted above.

REPORT OF THE DIRECTORS

DIRECTORS

The directors serving at the date of this report are listed on page 2. With the exception of Mr. Wong Yat Fai and Mr. Ng Kwok Fu, who were appointed independent non-executive directors of the Company on 30 September 2004, all directors held office for the whole year. In addition, Mr. Lee Ka Sze, Carmelo was re-designated non-executive director on 30 September 2004.

Mr. Wong Yat Fai and Mr. Ng Kwok Fu retire at the forthcoming annual general meeting in accordance with bye-law 86(2) of the Company's bye-laws and, being eligible, offer themselves for re-election.

Under the existing bye-laws of the Company, apart from the chairman of the board of directors, managing director and those directors, if any, in respect of whom the provisions of bye-law 86(2) apply, all directors are subject to retirement by rotation at the annual general meeting. In accordance with bye-law 87, Ms. Tung Wai Lan, Iris retires from office this year and, being eligible, offers herself for re-election.

Subject to shareholders' approval of the relevant amendment to the Company's bye-laws as set out in the notice of annual general meeting, in addition to the manner of retirement by rotation of directors as prescribed under the existing bye-laws, all directors (including those appointed for a specific term but excluding the chairman of the board of directors) are subject to retirement by rotation at least once every three years.

Pursuant to two respective ordinary resolutions passed at the annual general meeting of the Company held on 6 May 2004, Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David shall cease to hold office from close of the forthcoming annual general meeting and each of them offers himself for re-election.

No director proposed for re-election has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the director's emoluments and those of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements respectively.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, the register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows that the directors of the Company held the following interests and short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO):

(a) Interests in the Company

Name	Nature of interest	No. of shares	Approximate % of shareholding
Cheung Chung Kiu	Corporate	273,000,000 (Note 1)	34.25%
Wong Chi Keung	Personal	2,000,000 (Note 2)	0.25%
Ng Kwok Fu	Personal/Family	90,000 (Note 3)	0.01%

Notes:

- (1) Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in 273,000,000 shares in the Company by virtue of his indirect shareholding interest in Funrise Limited ("Funrise") which owned these shares. Funrise was a wholly-owned subsidiary of Yugang International (B.V.I.) Limited ("Yugang International (B.V.I.)"), which was, in turn, a wholly-owned subsidiary of Yugang International Limited ("Yugang"). Mr. Cheung and Chongqing Industrial Limited ("Chongqing Industrial") owned 0.63% and 37.79% of the issued share capital of Yugang respectively. Chongqing Industrial was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.
- (2) The reference to 2,000,000 shares relates to options over 2,000,000 shares in the Company. Mr. Wong Chi Keung exercised all of these options subsequent to the year end. Details of these options are set out in the section headed "Share Option Scheme" on page 15.
- (3) Mr. Ng Kwok Fu held 50,000 shares in the Company and was deemed to be interested in 40,000 shares in the Company held by his wife.

(b) Interests in associate, The Cross-Harbour (Holdings) Limited ("Cross-Harbour")

(i) Interests in shares

Name	Nature of interest	No. of shares	Approximate % of shareholding
Cheung Chung Kiu	Corporate	76,392,358 (Note 3)	27.31%

Note (3): Honway Holdings Limited ("Honway", an indirect wholly-owned subsidiary of the Company) owned 76,392,358 shares in Cross-Harbour. By virtue of his deemed interest in the issued share capital of the Company as described in note (1) above, Mr. Cheung was deemed to be interested in these shares.

REPORT OF THE DIRECTORS

(ii) Interests in share options

Name	No. of underlying shares	Approximate % of shareholding
Cheung Chung Kiu	52,647,059 (Note 4)	18.82%

Note (4): This represents the maximum number of shares issuable upon exercise of the remainder of the options granted to Honway pursuant to the share option agreement dated 9 May 2003 made between Cross-Harbour and Honway. As described in note (3) above, Mr. Cheung was deemed to be interested in these underlying shares by virtue of his deemed interest in Honway.

(iii) Interests in equity derivatives

Name	Type of equity derivatives	Balance of the principal amount of the equity derivatives and no. of underlying shares	Approximate % of shareholding
Cheung Chung Kiu	Convertible note (Note 5)	HK\$80,457,060 convertible into 20,630,015 new shares at the conversion price of HK\$3.90 per share (Note 6)	7.38%

Notes:

- (5) Honway held the convertible note with conversion period from 11 June 2002 to 11 June 2005. Honway has the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time, from the date of issue of the convertible note up to the third anniversary of the issue of the convertible note in amounts of not less than HK\$1 million on each conversion. Mr. Cheung was deemed to be interested in the underlying shares in respect of the convertible note by virtue of his deemed interest in Honway as described in note (3) above.
- (6) This represents the interest in the underlying shares derived from the convertible note with the outstanding amount of HK\$80,457,060. The total number of underlying shares in respect of the convertible note changes throughout the life of the convertible note. The conversion price is HK\$3.90 per share for the period from 12 June 2004 to 11 June 2005, subject to adjustment.

All the interests disclosed above represent long positions in shares, underlying shares and debentures of the Company or Cross-Harbour. None of the directors of the Company had any short position in shares, underlying shares and debentures of the Company or Cross-Harbour.

Save as disclosed herein, there was no interest or short position recorded in the register kept under section 352 of the SFO as at 31 December 2004.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

There was no share option scheme of the Company at the year end. The share option scheme previously adopted for the Company on 22 December 1993 (the "Scheme"), prior to the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") taking effect on 1 September 2001, expired on 21 December 2003. According to the Listing Rules as amended, the Company cannot grant any further options under the Scheme unless it complies with the new requirements of Chapter 17. However, all options granted prior to 1 September 2001 shall remain in full force and effect.

The purpose of the Scheme is to provide incentive or reward to executive management and employees. The exercise price is the higher of: (a) 80% of the average closing price of the existing shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of such option; and (b) the nominal value thereof.

Particulars of outstanding options at the beginning and at the end of the year and of options granted under the Scheme are as follows:

Type of participant	No. of outstanding options at the beginning and at the end of the year	Date of grant	Vesting period	Exercise period	Exercise price per share
<i>Director</i>					
Wong Chi Keung	2,000,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860
<i>Other employees</i>					
	100,000	16 Jul 1996	16 Jul 1996 to 16 Jul 1999	16 Jan 1997 to 15 Jul 2006	HK\$0.9488
	300,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860

Notes:

- (1) The consideration paid by each participant for the grant of such number of options set opposite his/her name is HK\$10.
- (2) All of the above options were exercised in full on 24 February 2005. Accordingly, there were no shares available for issue under the Scheme as at the date of this report.

Save as disclosed herein, no options lapsed and no options were granted, exercised or cancelled during the year.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save for the Scheme noted above, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangement whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, or its subsidiaries, or its fellow subsidiaries, or its holding company 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.

Mr. Lee Ka Sze, Carmelo, is a partner in Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the professional services rendered to the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the interests or short positions of the persons, other than directors of the Company, in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO were as follows:

Name	No. of shares (Note)	Approximate % of shareholding
Palin Holdings Limited	273,000,000	34.25%
Chongqing Industrial	273,000,000	34.25%
Yugang	273,000,000	34.25%
Yugang International (B.V.I.)	273,000,000	34.25%
Funrise	273,000,000	34.25%
Chan Chun Wai	123,293,201	15.47%

Note: The 273,000,000 shares set out in this column refer to the same block of shares beneficially owned by Funrise and are duplicated in Mr. Cheung's interest in the Company as disclosed in the section headed "Directors' Interests in Securities" on page 13. All the interests disclosed herein represent long position in shares, underlying shares and debentures of the Company.

Save as disclosed herein, there was no person known to the directors of the Company, other than a director of the Company, who, as at 31 December 2004, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

REPORT OF THE DIRECTORS**PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws, and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer shares on a pro rata basis to existing shareholders.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting year covered by the annual report, in compliance with the Code of Best Practice as set out in Appendix 14 to the then Listing Rules.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Messrs. Wong Wai Kwong, David, Wong Yat Fai and Ng Kwok Fu, and one non-executive director, Mr. Lee Ka Sze, Carmelo. The function of the audit committee is to assist the board of directors in providing an independent review of effectiveness of the financial reporting process and internal control system of the Company.

AUDITORS

The financial statements for the year have been audited by Ernst & Young, Certified Public Accountants, who retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Cheung Chung Kiu
Chairman

Hong Kong, 11 March 2005