

The directors submit their report together with the audited accounts for the year ended 31st December 2004.

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 carried out in Hong Kong. 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 21.

The directors do not recommend the payment of a dividend for the year ended 31st December 2004.

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 2004.

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.

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 | |
| Shi Yucheng, Charlie | (resigned on 2nd April 2004) |
| Wang Jun Yan | |
| Xin Shu Lin | (alternate director to Lao Yuan Yi, resigned on 21st June 2004) |
| # Zhao Yu Qiao | |
| # Tsui Che Yin, Frank | (resigned on 14th April 2004) |
| # Jiang Wei | |
| # Yeung Wai Kin | |
| * Robertson Peter Duncan Neil | |
| * Fan Jia Yan | |
| * Wu Ming Yu | |
- # *Non-executive directors*
* *Independent non-executive directors*

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

All the 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.

Connected Transaction

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

On 28th March 1991, the Company entered into a management agreement (the "Management Agreement") with China Assets Investment Management Limited ("CAIML") 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. The Management Agreement is not for a fixed term but may be terminated by either party serving not less than six months' written notice on the other party provided that the Company is required to have the approval of its shareholders before giving such notice.

Connected Transaction (Continued)

On 11th October 2004, the Company and CAIML entered into a supplemental agreement (“Supplemental Agreement”) to fix the term of the Management Agreement so that the Management Agreement, together with the Supplemental Agreement (“Amended Management Agreement”) will continue until 31st December 2006, and thereafter renewable for further terms of 2 years each provided that the requirements of the Listing Rules are complied with before renewal. The Amended Management Agreement may be terminated by either party by serving not less than six months’ written notice to the other party provided that the Company is required to have the approval of its shareholders (by way of ordinary resolution) before giving such notice.

Under the Amended 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.

CAIML is a subsidiary of First Shanghai Investment Limited (“FSIL”), a substantial shareholder of the Company holding approximately 33.83% of the issued capital of the Company. The Company is a substantial shareholder of FSIL holding approximately 21.15% of the issued share capital of FSIL.

During the year, the Company paid US\$1,026,795 (2003: US\$1,055,508) to CAIML under the Amended Management Agreement. No performance bonus had been paid to CAIML (2003: Nil). As the amount paid under the Amended Management Agreement is below the applicable percentage ratio under the Listing Rules. As a result, independent shareholders’ approval of the Amended 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.

The directors of the Company confirm that none of them has any equity interest in CAIML or any personal interest in the Amended 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.

As a result of the annual review of the Amended Management Agreement as continuing connected transactions, the directors of the Company (including the independent non-executive directors) confirm their views that the Amended 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.

Share Options

Options in respect of shares in the Company

At the Annual General Meeting of the Company held on 19th May 2004, the shareholders of the Company approved adoption of a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Company to grant options for the subscription of shares in the Company to selected participants as incentives or rewards for their contribution to the Group. Pursuant to the terms of the Scheme, the Directors may at their discretion offer any employee, proposed employee or director of the Company, any of its subsidiaries, its investment manager, CAIML (the "Manager") or any invested entity in which the Group holds not less than 20% of its equity interest to take up options to subscribe for the shares in the Company.

Details of the share options granted under the Scheme and remain outstanding as at 31st December 2004 are as follows:

	Options held at 1st January 2004	Options granted during the year	Total options lapsed during the year	Options held at 31st December 2004	Exercise price HK\$	Closing price before the date of grant	Date of grant	Exercise period
Directors:								
Lao Yuan Yi	—	740,000	—	740,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Wang Jun Yan	—	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Jiang Wei	—	50,000	—	50,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Yeung Wai Kin	—	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Zhao Yu Qiao	—	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Peter Duncan Neil Robertson	—	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Fan Jia Yan	—	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Wu Ming Yu	—	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Ex-director:								
Xin Shu Lin (Note)	—	50,000	(50,000)	—	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Employees of the Manager	—	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	3,850,000	(50,000)	3,800,000				

Note: Pursuant to the terms of the Scheme, the options lapsed due to resignation of Mr. Xin Shu Lin as director of the Company.

The Directors consider it inappropriate to disclose a theoretical value of the options granted as various factors crucial for valuation could not be predicted or ascertained accurately.

Share Options (Continued)**Options in respect of shares in associated corporations**

	Associated corporation	Date of grant	Total options lapsed	Balance of options not exercised (percentage of issued share capital) as at 31st December 2004	Exercise price HK\$	Exercise period
Directors:						
Lao Yuan Yi	First Shanghai Investments Limited	26/09/1995	—	7,338,100	0.342	26/03/1996 — 07/10/2005
		11/07/1996	—	5,503,900	0.318	11/01/1997 — 15/07/2006
		01/11/1997	—	10,000,000	0.816	01/05/1998 — 12/11/2007
			—	22,842,000 (1.95%)		
Wang Jun Yan	First Shanghai Investments Limited	08/07/1998	—	1,000,000 (0.09%)	0.283	08/01/1999 — 15/07/2008
Yeung Wai Kin	First Shanghai Investments Limited	26/01/1995	—	2,401,560	0.453	26/07/1995 — 09/02/2005
		11/07/1996	—	1,494,304	0.318	11/01/1997 — 15/07/2006
		01/11/1997	—	2,500,000	0.816	01/05/1998 — 12/11/2007
		08/07/1998	—	6,980,000	0.283	08/01/1999 — 15/07/2008
			—	13,375,846 (1.14%)		

The above share options were granted under the share option scheme of First Shanghai Investments Limited adopted on 24th May 2002.

Directors' Interests in Contracts of Significance

Save for the Amended 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 Amended 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 2004, the 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 and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Shares in associated corporations

			Number of ordinary shares held (percentage of issued share capital)
Associated corporation	Name	Type of interest	
First Shanghai Investments Limited	Lao Yuan Yi	Personal	42,080,000
		Corporate	75,308,000
			117,388,000 (10.00%)

Apart from the Amended Management Agreement and the share option schemes stated above, at no time during the year had 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.

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 2004, 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	Capacity	Number of ordinary shares held	Percentage of issued share capital
First Shanghai Investments Limited ("FSIL") (Note 1)	Corporate	Interest of Controlled Corporation	25,162,866	33.83%
First Shanghai Direct Investments Limited ("FSDI") (Note 1)	Corporate	Interest of Controlled Corporation	25,162,866	33.83%
Golad Resources Limited (Note 1)	Corporate	Beneficial Owner	25,162,866	33.83%
Chen Dayou	Personal	Beneficial Owner	8,405,000	11.30%
QVT Financial LP (Note 2)	Corporate	Investment Manager	6,710,000	9.02%
QVT Financial GP LLC (Note 2)	Corporate	Interest of Controlled Corporation	6,710,000	9.02%
Deutsche Bank Aktiengesellschaft	Corporate	Security Interest	6,710,000	9.02%
QVT Associates GP LLC (Note 3)	Corporate	Interest of Controlled Corporation	5,215,926	7.01%
QVT Fund LP (Note 3)	Corporate	Beneficial Owner	5,215,926	7.01%

Substantial Shareholders' Interests and Short Positions in the Shares of the Company and Its Associated Corporations (Continued)

Notes:

1. Both FSIL and FSDI 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. QVT Financial GP LLC has interest in QVT Financial LP which is deemed to have interest in the issued share capital of the Company since QVT Financial LP acts in the capacity of an investment manager to QVT Fund LP.
3. QVT Associates GP LLC has interest in the issued share capital of the Company through its interest in QVT Fund LP.

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 2004.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 20 to the accounts.

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 Institute of Certified Public 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.

Model Code for Securities Transactions by Directors

The Company has adopted Appendix 10 of the Listing Rules "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the directors of the Company. After specifically inquiring with all the directors of the Company, the Company confirms that its directors' securities transactions have been fully complied with the standard laid down in the said rules at any time during the year ended 31st December 2004.

Independence of Independent Non-executive Directors

The Company has received, from each of the independent non-executive director, a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Board believes that the existing independent non-executive directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules.

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