

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

#### PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. The Group principally invests in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China (the "PRC").

#### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 19 to 51.

The directors do not recommend the payment of a dividend.

#### SHARE CAPITAL

On 10 March 2004, the Company entered into a placing agreement for the placing of 28,800,000 new shares ("Placing Shares") at a price of HK\$0.124 per Placing Share (the "Placement"). The Placing Shares represented 20% of the then existing issued share capital of the Company. Upon completion of the Placement on 29 March 2004, the Placing shares represented approximately 16.7% of the issued share capital of the Company as enlarged by the issue of 28,800,000 placing shares. The net proceeds of the Placement of approximately HK\$3,408,000 have been used as additional working capital of the Company. The Placing Shares rank pari passu in all respects with the existing issued share capital of the Company.

On 10th June 2004, the Company entered into a subscription agreement to allot and issue 27,200,000 new shares ("Subscription Shares") to a subscriber in cash at a subscription price of HK\$0.10 per Subscription Share. The Subscription Shares represented approximately 15.7% of the then existing issued share capital of the Company. Upon completion of the Subscription on 4 August 2004, the Placing shares represented approximately 13.6% of the issued share capital of the Company as enlarged by the issue of 27,200,000 Subscription Shares. The net proceeds from the issue of the subscription shares of approximately HK\$2,451,000 million have been used for investment purposes. The Subscription Shares rank pari passu in all respects with the existing issued share capital of the Company.

# Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2004

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the financial statements on pages 22 and 48 respectively.

## DISTRIBUTABLE RESERVE

Distributable reserve of the Company at 31 December 2004, calculated under the Company Law (Revised) of the Cayman Islands, amounted to HK\$9,117,000 (2003: HK\$10,908,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

## DIRECTORS

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

### Executive Directors:

Mr. Wong Fong Kim (*Chairman*)

Mr. Tai Ah Lam, Michael

Mr. Phang Yul Cher Yeow

(appointed on 20 July 2004)

Mr. Tham Ming Yong

(appointed on 11 August 2004)

Mr. Tsun Kok Chung, Richard

(appointed on 7 March 2005)

Mr. Lee Wa Lun, Warren

(resigned on 26 January 2004)

Mr. Lok Kung Yao, Perry

(appointed on 26 January 2004 and resigned  
on 23 July 2004)

### Non-executive Directors:

Mr. Cui Zan Ming

(appointed on 7 March 2005)

Mr. Chang Hang Vai

(resigned on 11 August 2004)

Mr. Lam Shu Chung

(appointed on 10 March 2004 and resigned  
on 28 July 2004)

### Independent Non-executive Directors:

Dr. Wong Yun Kuen, Edward

Mr. Hsieh Dominick

Mr. Chang Kin Man

(appointed on 19 April 2004)

Ms. Lam Lin Chu

(appointed on 4 April 2005)

Mr. Wong Wing Hang, Henry

(appointed on 25 August 2004 and resigned  
on 31 March 2005)

Ms. Susan Wong

(resigned on 1 April 2004)

In accordance with Articles 157 of the Articles of Association, Mr Wong Fong Kim and Mr. Chang Kin Man retiring by rotation at the Annual General Meeting (the “AGM”) and being eligible, may offer themselves for re-election. Mr. Wong Fong Kim offers himself for re-election at the AGM. Mr. Chang Kin Man does not offer himself for re-election at the AGM.

Mr Phang Yul Cher Yeow, Mr Tham Ming Yong, Mr Tsun Kok Chung, Richard, Mr Cui Zan Ming, Ms Lam Lin Chu who were appointed by the Directors after the 2004 AGM of the Company will in accordance with Articles 123 of the Articles of Association, retire by rotation at the AGM and being eligible offer themselves for re-election at the AGM.

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

The term of office of each of the independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

#### DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, none of the directors or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

#### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures, of the Company and any other body corporate.

#### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 December 2004, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the company's issued share capital:

## Ordinary shares of HK\$0.01 each in the Company

		Number of shares held		Total	Percentage
Name of shareholder		Personal interests	Corporate interests		
Mr. Lee Wing On, Samuel	Long positions	40,988,000	–	40,988,000	20.49%
Mr. Chow Kwok Chung, Bruce	Long positions	12,000,000	24,000,000	36,000,000	18.00%

Saved as disclosed above, as at 31 December 2004, there was no other person who was recorded in the register of the Company that is required to be kept pursuant to Section 336 of the SFO, as having an interest or short position in the shares or underlying shares of the Company.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Scheme”) on 23 May 2002. The purpose of the Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Participants include (a) any full-time employee, directors (including any non-executive director or independent non-executive director) and part time employee of the Company or of any of its subsidiaries; (b) any adviser or consultant (in the areas of financial or corporate managerial) to the Company or to any of its subsidiaries; and (c) any adviser, consultant, agent, business affiliates or any person or entity who provides research or other support directly or indirectly to the Group, and any employee, adviser or consultant to the investment management company for the Company.

The directors may, at their absolute discretion, make an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 12,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the Scheme in any 12-month period must not exceed 1% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 23 May 2002.

No options have been granted since the adoption of the Scheme.

#### INVESTMENT MANAGEMENT CONTRACT

Pursuant to an agreement dated 6 July 1998 (the "Agreement"), the Company appointed Haywood Investment Management Limited, a company in which Mr. Wong Fong Kim, a director of the Company has a 9% beneficial interest, as its manager for the purpose of investment management and administration of the Company. In return, Haywood Investment Management Limited will be entitled to a monthly fee at 1.5% per annum of the net asset value of the Company at each preceding month end as defined in the Agreement and an incentive fee equivalent to 10% of the surplus in net asset value (with appropriate adjustment) over the previous financial year. During the year, the Company paid a management fee amounting to approximately HK\$103,236 to Haywood Investment Management Limited. In the opinion of the independent non-executive directors, the payment of management fee was:

- (i) in the ordinary and usual course of the Company's business and was in accordance with the terms of the relevant agreement;
- (ii) on normal commercial terms and on an arm's length basis; and
- (iii) fair and reasonable so far as the shareholders of the Company are concerned.

On 4 March 2004, the Group entered into an agreement with Haywood Investment Management Limited, whereby both parties have conditionally agreed to terminate the investment management agreement dated 6 July 1998. On the same date, the Group appointed Altus Capital Limited, an independent party, to provide investment management services until 30 December 2005. The monthly management fee payable to the Manager will be the higher of 1.5% per annum of the Net Asset Value as at the immediately preceding Valuation Date on the basis of the actual number of days in the relevant calendar month over a year of 365 days or a minimum monthly fee. During the year, the Company paid a management fee amounting to approximately HK\$100,000 to Altus Capital Limited.

Save as disclosed above, no other contracts of significance to which the Company and any of 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.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2004 and up to the date of this report, the directors of the Company do not have interests in companies of which their businesses compete or are likely to compete, either directly or indirectly, with the businesses of the Company as required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED 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.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meeting in accordance with the Company's Articles of Association.

## AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal controls and risk evaluation. As at 31 December 2004, the committee members comprised Dr. Wong Yun Kuen, Edward, Mr. Chang Kit Man and Mr. Wong Wing Hang, Henry, who are all independent non-executive directors of the Company. Two meetings were held by the committee during the year.

## SUBSEQUENT EVENTS

Pursuant to the Shareholders' approval at the Extraordinary General Meeting held on 17 March 2005, the Company increased the authorized share capital of the Company from HK\$2,000,000 divided into 200,000,000 shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 shares of HK\$0.01 each by creation of an additional 800,000,000 unissued shares of HK\$0.01 each. At the same time, the Share Consolidation was executed and the board lot size for trading in the ordinary shares in the capital of the Company was changed from 2,000 shares to 20,000 New Shares.

On 28 January 2005, the Company entered into an underwriting agreement for the open offer of New Shares on the basis of one offer share for every New Share held on record date ("Open Offer") through two underwriters, Orient Securities Limited and Kingston Securities Limited. An ordinary resolution in respect of the Open Offer was passed on the Extraordinary General Meeting held on 17 March 2005. The Offer Shares, when fully paid, rank pari passu in all respects with the existing share capital of the Company. The Open Offer was completed on 18 April 2005. The net proceeds from the Open Offer of approximately HK\$4.5 million will be used for future investment purposes and will be invested in accordance with the Company's investment policy of investing in listed and unlisted companies in Hong Kong and the People's Republic of China ("PRC") to achieve medium term capital appreciation.

#### AUDITORS

The company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

Deloitte Touche Tohmatsu were the auditors of the Company for the year ended 31 December 2002. Apart from this, there are no other changes in the auditors during the past three years.

On behalf of the Board  
**Tsun Kok Chung, Richard**  
*Director*

Hong Kong, 26 April 2005