



DIRECTORS' REPORT

The Directors hereby present to the shareholders their report, together with the audited accounts of the Group for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries and principal associated companies and jointly controlled entities are airline operations and aviation related businesses which are set out in notes 13 to 15 to the accounts respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 and the state of the Group's affairs as at that date are set out in the accounts on pages 50 to 91.

The Directors have declared an interim dividend of HK0.6 cent per share, totalling HK\$19,876,000, which was paid on 27th October, 2004.

The Directors recommend the payment of a final dividend of HK1.0 cent per share, totalling HK\$33,127,000.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 20 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December, 2004, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$680,033,000 (2003: HK\$655,050,000).

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 92.



REPURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2004.

At 31st December, 2004, 3,312,680,000 shares were in issue (31st December, 2003: 3,312,680,000 shares).

SHARE OPTIONS

A share option scheme (the "Scheme") was adopted by the Company on 29th May, 2002. The major terms of the Scheme are as follows:

1. The purpose of the Scheme is to provide incentives to participants to contribute to the prosperity, business development or growth of the Group and/or to enable the Group to recruit and/or retain high-calibre employees and attract resources that are valuable to the Group.
2. The participants of the Scheme are any Director, employee, supplier, customer or other relevant business partners of the Group as invited by the Board.
3. The subscription price determined by the Board will be the higher of (i) the closing price of the Company's share as stated in The Stock Exchange of Hong Kong Limited's ("Stock Exchange") daily quotations sheet on the date of grant; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.
4. The acceptance of grant of share options must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee.
5. The maximum number of shares over which options may be granted under the Scheme shall not exceed 30 per cent of the issued share capital of the Company from time to time.

As at the date of this report, the maximum number of shares available for issue under the Scheme is 331,268,000, being 10 per cent of the number of issued share capital of the Company.

6. The maximum number of shares issuable upon exercise of the options granted under the Scheme and any other share option scheme(s) of the Company (whether exercised or outstanding options) to each eligible participant in any 12-month period must not exceed 1 per cent of the shares of the Company in issue. Where any further grant of share options to any eligible participant would result in the shares issued and to be issued upon exercise of all options granted or to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period representing in aggregate over 1 per cent of the shares of the Company in issue, such further grant shall be subject to the issue of a circular by the Company and the shareholders' approval of the Company at a general meeting with the relevant eligible participant and his/her associates abstaining from voting.
7. The exercise period of any option granted under the Scheme must not exceed six years commencing on the date falling three months after the date of grant and expiring on the last day of the said period.
8. The Scheme shall be valid and effective till 28th May, 2012.



DIRECTORS' REPORT

SHARE OPTIONS (CONT'D)

During the year no share option has been exercised. As at 31st December, 2004, there were 104,378,000 share options outstanding under the Scheme, details of which are as follows:

| Name of grantee | Options held at 1st January, 2004 | Options granted during the year | Options exercised during the year | Options lapsed during the year | Options held at 31st December, 2004 | Exercise price HK\$ | Grant date | Exercise period |
|--------------------------|-----------------------------------|---------------------------------|-----------------------------------|--------------------------------|-------------------------------------|---------------------|------------|--------------------------|
| Kong Dong | 32,351,800 ¹ | - | - | 32,351,800 ¹ | - | 0.82 | 24/09/2001 | 25/03/2002 to 24/03/2004 |
| Chuang Shih Ping | 33,126,000 | - | - | - | 33,126,000 | 1.14 | 25/07/2003 | 26/10/2003 to 25/10/2009 |
| Zhang Xianlin | 33,126,000 | - | - | - | 33,126,000 | 1.14 | 25/07/2003 | 26/10/2003 to 25/10/2009 |
| Tsang Hing Kwong, Thomas | 33,126,000 | - | - | - | 33,126,000 | 1.14 | 25/07/2003 | 26/10/2003 to 25/10/2009 |
| Gu Tiefei | 5,000,000 | - | - | - | 5,000,000 | 1.14 | 25/07/2003 | 26/10/2003 to 25/10/2009 |
| Total: | <u>136,729,800</u> | <u>-</u> | <u>-</u> | <u>32,351,800</u> | <u>104,378,000</u> | | | |

Note 1: These options were granted pursuant to the old share options scheme which was replaced by the Scheme.

DIRECTORS

The Directors during the year and up to the date of this report are:

Kong Dong
 Chuang Shih Ping
 Zhang Xianlin
 Tsang Hing Kwong, Thomas
 Gu Tiefei
 Zhao Xiaohang (Appointed on 31st May, 2004)
 Lok Kung Nam**
 Hu Hung Lick, Henry*#
 Ho Tsu Kwok, Charles*
 Li Kwok Heem, John**
 Chan Ching Har, Eliza* (Appointed on 26th August, 2004)

* independent Non-Executive Director

audit committee member

In accordance with Article 90 of the Company's Articles of Association. Messrs. Zhao Xiaohang and Chan Ching Har, Eliza retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.



DIRECTORS' REPORT

DIRECTORS (CONT'D)

In accordance with Article 98 of the Company's Articles of Association, Messrs. Chuang Shih Ping and Li Kwok Heem, John retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

All other remaining directors continue in office.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are 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 within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 33 to 35.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Apart from the interests of the Directors in the share options of the Company are separately disclosed in the "Share Options" above, as at 31st December, 2004, none of the directors and the chief executive of the Company and/or any of their respective associates had any interest or deemed interest in the long and short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transaction by Directors of Listed Companies.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to paragraph 8.10(2) of the Listing Rules, Mr. Kong Dong disclosed that he is the Deputy General Manager of CNAH, the ultimate holding company of the Company, and the Vice Chairman and a non-executive director of Air China. CNAH is a state-owned enterprise established in the PRC, Air China is a joint stock limited company incorporated in the PRC, shares of which are listed on the Stock Exchange of Hong Kong Limited and the London Stock Exchange. Air China is engaged in the business of passenger and cargo air transportation services and airport ground handling services and CNAH is its ultimate holding company. As such the business activities of CNAH and Air China compete, or are likely to compete, either directly or indirectly, with the business of the Group.

Nevertheless Mr. Kong is not directly involved in managing Air China's business. The Group is therefore capable of carrying on such business independently of, and at arm's length from the said competing business.



CHANGE IN IMMEDIATE CONTROLLING SHAREHOLDER

In or about September 2004, CNAH and a number of its subsidiaries underwent a restructuring pursuant to which CNACG transferred its entire interest in the Company to Air China. Consequent to such restructuring, the Company has become a directly-owned subsidiary of Air China of which Air China is directly interested in approximately 69 per cent of the issued share capital of the Company. The Hong Kong Securities and Futures Commission has granted a waiver to Air China of its obligation to make a mandatory general offer to all other shareholders of the Company as a result of such restructuring.

SUBSTANTIAL SHAREHOLDERS

The register of interests in shares and short positions maintained under Part XV of the SFO shows that as at 31st December, 2004 the Company had been notified of the following:

| | Capacity | No. of shares | Percentage of the issued share capital |
|--|--|----------------------------|--|
| China National Aviation Holding Company | Attributable Interest | 2,264,628,000 ¹ | 68.4 |
| Air China Limited | Beneficial owner | 2,264,628,000 ² | 68.4 |
| Best Strikes Limited | Beneficial owner | 187,656,000 | 5.6 |
| On Ling Investments Limited | Attributable Interest | 322,856,000 ³ | 9.7 |
| Novel Investments Holdings Limited | Attributable Interest | 322,856,000 ³ | 9.7 |
| Novel Enterprises (BVI) Limited | Attributable Interest | 322,856,000 ³ | 9.7 |
| Novel Credit Limited | Attributable Interest | 322,856,000 ³ | 9.7 |
| Novel Holdings (BVI) Limited | Attributable Interest | 322,856,000 ³ | 9.7 |
| Westleigh Limited | Attributable Interest | 322,856,000 ³ | 9.7 |
| J.P. Morgan Chase & Co. | Investment manager | 197,894,000 | 5.97 |
| | Custodian corporation/ approved lending agent | 24,538,000 | 0.74 |
| J.P. Morgan Chase Bank N.A. | Attributable Interest | 24,538,000 ⁴ | 0.74 |
| J.P. Morgan Fleming Asset Management Holdings Inc. | Attributable Interest | 173,356,000 ⁵ | 5.23 |
| J.P. Morgan Fleming Asset Management (Asia) Inc. | Attributable Interest | 173,356,000 ⁵ | 5.23 |
| J.P. Morgan Asset Management Limited | Attributable Interest | 169,692,000 ⁵ | 5.12 |



SUBSTANTIAL SHAREHOLDERS (CONT'D)

Notes:

1. A state-owned enterprise established in the People's Republic of China. It owns approximately 51.16 per cent of the total issued share capital of Air China Limited and the entire issued share capital of China National Aviation Corporation (Group) Limited, a company incorporated in Hong Kong, which in turn owns approximately 14.64 per cent of the total issued share capital of Air China Limited. Accordingly its interests in the Company duplicate with those interest of Air China Limited.
2. A joint stock limited company incorporated in the People's Republic of China with its H shares listed in Hong Kong and London. China National Aviation Corporation (Group) Limited, the Company's former immediate controlling shareholder, transferred its approximately 69 per cent shareholding interest in the Company to Air China Limited in September 2004 by way of a capital contribution in return for Air China Limited's non-H foreign shares, as such Air China Limited becomes the immediate controlling shareholder of the Company. Its interest in the Company duplicates with those interests of China National Aviation Holding Company.
3. 5.6 per cent of the interest held by each of these companies in the Company duplicates with Best Strikes Limited's interest in the Company. The interests of these companies in the Company also duplicate each other.
4. The interest held by it in the Company duplicates with J.P. Morgan Chase & Co.'s interest in the Company held by it as custodian corporation/approved lending agent.
5. The interests held by each of these companies in the Company duplicate with J.P. Morgan Chase & Co.'s interest in the Company held by it as investment manager. The interests of these companies in the Company also duplicate each other.

Save as disclosed above, as at 31st December, 2004, no other person had an interest in the long and short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Part XV of the SFO.

MANAGEMENT CONTRACTS

There exist agreements for general management services, in respect of which CNACG and CNAC (Macau) Aviation provide secretarial, personnel, accounting and general office administrative services to the Company and CNAC Macau on monthly fees of HK\$500,000 and HK\$300,000 respectively. Details of which are set out in note 27 to the accounts.

Save as disclosed 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.

MAJOR CUSTOMERS AND SUPPLIERS

As set out in the section headed "Principal Activities" above, the Group's turnover and operating profit are mainly derived from its airline operations.

During the year, the Group sold less than 14 per cent of its goods and services to its 5 largest customers.

The largest supplier and the five largest suppliers combined represented 15 per cent and 47 per cent respectively of the Group's total purchases for the year.



MAJOR CUSTOMERS AND SUPPLIERS (CONT'D)

During the year, none of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5 per cent of the company's share capital) had an interest in the major suppliers or customers noted above except that the Company owns 33.65 per cent effective interests in one of the five largest suppliers and the Company's immediate holding company effectively owns 51 per cent effective interests in another one of the five largest suppliers, which together contributed 13 per cent of the Group's total purchases.

CONNECTED TRANSACTIONS

Connected transactions disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

1. In April 2004, Fly Top Limited, a wholly-owned subsidiary of the Company, acquired from Air China International Corporation ("Air China International", predecessor of Air China) 60 per cent of the equity interest in BACL at a consideration of RMB294 million.
2. In April 2004, Fly Top Limited acquired from Air China International 60 per cent of the equity interest in SWACL at a consideration of RMB67 million.
3. Following the completion of the acquisition of BACL, several on-going connected transactions that BACL had previously entered or will enter with Air China for the provision of in-flight catering services and other related in-flight food and beverages services to Air China in respect of all inbound and outbound flights of Air China and its various branch companies and cargo companies, with flight numbers carrying the prefix of the code name for Air China flights ("CA") to and from Beijing Capital International Airport constituted connected transactions for the Company for the purpose of the Listing Rules.

The in-flight meal services expenses paid to BACL during the period from 16th November, 2004 to 31st December, 2004 amounted to HK\$24,381,000.

4. Following the completion of the acquisition of SWACL, several on-going connected transactions that SWACL had previously entered or will enter with Air China for the provision of in-flight catering services and other related in-flight food and beverages services and other ancillary services to Air China, its Southwest and Zhejiang branch companies in respect of all the inbound and outbound flights with flight numbers carrying the prefix of CA to and from Chengdu Shuangliu International Airport operated by those branch companies constituted connected transactions for the Company for the purpose of the Listing Rules.

The in-flight meal and other ancillary services expenses paid to SWACL for the period from 16th November, 2004 to 31st December, 2004 amounted to HK\$3,867,000 and HK\$345,000 respectively.

5. In August 2004, the Group entered into sale and purchase agreements with CNACG pursuant to which the Group agreed to acquire 16 per cent and 4.2 per cent of equity interests in LLSHK from CNACG and Hong Kong International Air Catering Limited at considerations of HK\$89 million and HK\$24.5 million respectively.

The transactions were completed in December 2004.



CONNECTED TRANSACTIONS (CONT'D)

6. The Group entered into a lease agreement with Easy Advance Limited and Wise Advice Limited, fellow subsidiaries, pursuant to which Easy Advance Limited and Wise Advice Limited lease office premises and certain car parks to the Group at a total monthly rental of MOP141,800 (equivalent to approximately HK\$138,000).
7. The Group entered into a lease agreement with Air China, immediate holding company, pursuant to which the Group leases aircraft to Air China at a monthly fee of US\$358,500 (equivalent to approximately HK\$2,796,000) with monthly maintenance hour charge of US\$470 (equivalent to approximately HK\$4,000) per block hour.
8. On 3rd August, 2001, the Company and CNACG entered into a management services agreement pursuant to which CNACG has agreed to provide secretarial, personnel, accounting and general office administrative services to the Group for a period of two years and CNACG would be paid by the Company in respect of the services a monthly fee of HK\$500,000.

The management services agreement was renewed on 27th August, 2003 with same terms for a period of two years commencing 1st July, 2003. Total management fee paid during the year amounted to HK\$6,000,000.

9. The Stock Exchange has, subject to certain conditions, granted waivers to the Group from compliance with certain requirements of the Listing Rules in respect of the following connected transactions:
 - (a) The Company and CNAC entered into a licence agreement dated 18th October, 1997 pursuant to which CNAC has agreed to grant a licence to the Company, free of royalty, for the use of certain trademarks in Hong Kong, the Taiwan region and Macau so long as the Company is a subsidiary of CNACG. The Company has applied for a waiver for strict compliance with the Listing Rules in respect of this connected transaction.

On 25th August, 2004, CNAC assigned the said trademarks in Hong Kong and Macau to CNACG. On the same date, CNACG entered into two license agreements with the Company pursuant to which CNACG granted licenses to the Company, free of royalty, for the rights to use those trademarks in Hong Kong and Macau, respectively, so long as the Company is a direct or indirect subsidiary of China National Aviation Holding Company. These license agreements supersede the old license agreement aforesaid. These connected transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under the Listing Rules.



CONNECTED TRANSACTIONS (CONT'D)

9. (CONT'D)

(b) The Company acquired the entire equity interest in CNAC Macau consisting, inter alia, 51 per cent of Air Macau on 25th March, 2002, certain on-going transactions constituted connected transactions of the Company arising therefrom are as follows:

- (i) Airport charges and airport fees that invoiced and collected by ADA – Administration of Airports Limited (“ADA”), a 51 per cent owned subsidiary of CNAC (Macau) Aviation (a wholly-owned subsidiary of CNACG), on behalf of Macau International Airport Company (“MIAC”), the developer and owner of Macau International Airport. Since the Company and CNAC (Macau) Aviation are both subsidiaries of CNACG, ADA is a connected person (as defined under the Listing Rules) of the Group. Further, Sociedade de Turismo e Diversões de Macau (“STDM”), which has a 15 per cent shareholding interest in Air Macau, has an approximately 33 per cent shareholding in MIAC and hence, MIAC is also a connected person of the Group. As a result, the payment of airport charges and airport fees constitutes connected transactions under the Listing Rules.

The airport charges and airport fees paid to ADA for the year ended 31st December, 2004 totalling HK\$69,337,000 did not exceed 10 per cent of the consolidated turnover of the Company for the year ended 31st December, 2004.

- (ii) Air Macau continues to purchase in-flight meals from Macau Catering Services Company Limited (“MCS”), an associate of STDM, pursuant to a catering services agreement that took effect from 1st November, 2001.

The aggregate of the in-flight meal services expenses paid to MCS for the year ended 31st December, 2004 totalling HK\$41,199,000 did not exceed 5 per cent of the consolidated turnover of the Company for the year ended 31st December, 2004.

- (iii) CNAC Macau and CNAC (Macau) Aviation entered into a three-year management services agreement pursuant to which CNAC (Macau) Aviation provides general management services including secretarial, personnel, accounting and general office administrative services, to CNAC Macau, at a monthly fee of HK\$300,000.

The aggregate of the services fees paid during the year ended 31st December, 2004 totalling HK\$3,600,000 did not exceed the higher of either (i) HK\$10 million; or (ii) 3 per cent of the consolidated net tangible assets of the Company as at 31st December, 2004.



CONNECTED TRANSACTIONS (CONT'D)

9. (CONT'D)

(b) (CONT'D)

- (iv) Air Macau has entered into sales arrangement with certain ticket sales agents, the number of which may be varied from time to time according to the business needs of Air Macau, for the sale of air tickets (including cargo transport). During the year, Air Macau either sold the air tickets to the ultimate consumers through the ticket sales agents and paid to the ticket sales agents commission fees at rates of 7 per cent to 9 per cent of the value of tickets sold; or sold the air tickets to the ticket sales agents at fixed prices, so that the ticket sales agents might on-sale the same to ultimate consumers at prices determined by the ticket sales agents. Such ticket sales agents include those who are also associates of CNACG or CNAC, the immediate holding company of CNACG.

The aggregate of the commission paid or payable to, and value of tickets sold to those agents for the year ended 31st December, 2004 totalling HK\$13,113,000 did not exceed the higher of either (i) HK\$10 million; or (ii) 3 per cent of the consolidated net tangible assets of the Company as at 31st December, 2004.

The independent Non-Executive Directors have reviewed these transactions and confirmed that in their opinion, these transactions were carried out:

- (i) in the ordinary and usual course of business;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement (if applicable) on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

With respect of items (3), (4) and (9) above, the auditors of the Company have performed certain procedures on the above continuing connected transactions and reported that:

1. The in-flight meal service expenses paid to BACL ("BACL Catering Transactions") had been approved by the board of directors of the Company, were entered into in accordance with the terms of the agreement governing such BACL Catering Transactions and the aggregate of the BACL Catering Transactions for the period from 16th November, 2004 to 31st December, 2004 did not exceed RMB200 million;
2. The in-flight meal and other ancillary services expenses paid to SWACL ("SWACL Transactions") had been approved by the board of directors of the Company, were entered into in accordance with the terms of the agreement governing such SWACL Transactions and the aggregate of the SWACL Transactions for the period from 16th November, 2004 to 31st December, 2004 did not exceed RMB70 million;



CONNECTED TRANSACTIONS (CONT'D)

3. The licensing transaction with China National Aviation Corporation had been approved by the board of directors of the Company, was entered into in accordance with the terms as set out in the agreement governing such licensing transaction the period from 1st January, 2004 to 29th September, 2004;
4. The airport charges and airport fees paid to ADA ("ADA Transactions") had been approved by the board of directors of the Company, were entered into in accordance with the terms of the agreements governing such ADA Transactions, or where there is no such agreement, to the rates published by the Macau Government in the government gazette and the ADA Transactions did not exceed 10 per cent of the consolidated turnover of the Company for the year ended 31st December, 2004;
5. The in-flight meal services expenses paid to MCS ("MCS Transactions") had been approved by the board of directors of the Company, were entered into in accordance with the terms of the agreement governing such MCS Transactions and the aggregate of the MCS Transactions did not exceed 5 per cent of the consolidated turnover of the Company for the year ended 31st December, 2004;
6. The management services fee paid to CNAC (Macau) Aviation ("CNACAL Transaction") had been approved by the board of directors of the Company, was entered into in accordance with the terms of the agreement governing such CNACAL Transaction and the aggregate of the CNACAL Transaction did not exceed the higher of either (i) HK\$10 million; or (ii) 3 per cent of the consolidated net tangible assets of the Company as at 31st December, 2004; and
7. The commission paid or payable to and value of ticket sold to certain ticket sales agents ("Ticket Sales Agent Transactions") had been approved by the board of directors of the Company, were entered into in accordance with the terms of the agreements governing such Ticket Sales Agents Transactions, or where there is no such agreement, to the pricing policy of the Group and the Ticket Sales Agents Transactions did not exceed the higher of either (i) HK\$10 million; or (ii) 3 per cent of the consolidated net tangible assets of the Company as at 31st December, 2004.



CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2004, in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the Non-Executive Directors were not appointed for specific terms but appointed to their officers for such terms and subject to retirement by rotation in accordance with Article 98 of the Company's Articles of Association.

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2004. The audit committee had reviewed and considered the Group's interim and annual results for the year.

The Company received confirmations from each of the independent Non-Executive Directors an annual confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent Non-Executive Directors to be independent.

FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES AND THEIR PROFORMA COMBINED BALANCE SHEET

Pursuant to Chapter 13 of the Listing Rules, a proforma combined balance sheet of those affiliated companies with financial assistance from the Group and the Group's attributable interest in those affiliated companies are presented below.

Affiliated companies comprise the Group's associated companies and jointly controlled entities. As at 31st December, 2004, the Group had loans to affiliated companies totalling HK\$82,103,000 and has given guarantees of HK\$327,000,000 in respect of facilities granted to and provide sufficient funding for an infrastructure development of an affiliated company, financial assistance totalling HK\$409,103,000. These exceed 8% of the Group's total assets as at 31st December, 2004.

| | As at 31st December, 2004 | |
|-------------------------|--|--|
| | Proforma combined balance sheet | The Group's attributable interest |
| | HK\$'000 | HK\$'000 |
| Non-current assets | 432,171 | 126,842 |
| Current assets | 349,631 | 167,197 |
| Current liabilities | (237,467) | (112,793) |
| Non-current liabilities | (273,057) | (70,252) |
| Minority interests | (16,685) | (8,343) |
| Shareholders' advances | (259,066) | (82,103) |
| | <u>(4,473)</u> | <u>20,548</u> |



DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Kong Dong

Chairman

Hong Kong, 23rd March, 2005