

# Directors' Report

For the year ended 31 December 2004

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to these investee companies.

## 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 18 to 55.

The directors do not recommend the payment of a dividend.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are shown in note 12 to the financial statements.

## SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's principal subsidiaries and the Group's principal associates and jointly controlled entities as at 31 December 2004 are set out in notes 13 to 15 to the financial statements respectively.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statements.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 56.

## DIRECTORS

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

### Executive directors

Lam Wo

Lam Sai Ho, Anthony (resigned on 22 March 2004)

Cheuk Yuk Lung (appointed on 22 March 2004)

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## Independent non-executive directors

Yan Mou Keung, Ronald

Chan Fai Yue, Leo

Chan Siu Wing, Raymond (appointed on 28 September 2004)

In accordance with the Company's Bye-Laws, Messrs. Yan Mou Keung, Ronald and Chan Siu Wing, Raymond shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of the directors of the Company are as follows:

### Executive Directors

**Mr. Lam Wo**, aged 45, was appointed as an executive director of the Company in 2003 and was then appointed as the Chairman of the Company in 2004. Mr. Lam graduated from the Faculty of Business Administration in Hong Kong Shue Yan College. He has extensive experience in the fields of investment, finance and management.

**Mr. Cheuk Yuk Lung**, aged 39, was appointed as an executive director of the Company in 2004. He is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of The Hong Kong Institute of Certified Public Accountants. Mr. Cheuk has extensive professional experience in management, finance, accounting and auditing fields.

### Independent Non-Executive Directors

**Mr. Yan Mou Keung, Ronald**, aged 51, was appointed as an independent non-executive director of the Company in 2001. He is an independent non-executive director of China Investment Fund Company Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange of Hong Kong Limited. Mr. Yan has more than 19 years of experience in running retail fashions. Mr. Yan is the Director of Art Concept International Culture Studies Foundation Funds. He is also the Hon Life President of Tsimshatsui Kai Fong Welfare Association, Vice President of HK Island/Northern District Scout Association, Hong Kong, Hon Life President of Artiste Training Alumni Association, the President of Pragmatic Kwon-Do and the Chairman of Chung Hop Pai, Lau Kan Tung Chinese Martial Arts Association.

**Mr. Chan Fai Yue, Leo**, aged 63, was appointed as an independent non-executive director of the Company in 2001. Mr. Chan has over 20 years of invaluable experience in Hong Kong stock market and manufacturing. During his early years in Japan, he exposed in trading and finance fields. He is a director of a paint manufacturing company in Bangkok. Mr. Chan is a member of The Hong Kong Institute of Directors.

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**Mr. Chan Siu Wing, Raymond**, aged 40, was appointed as an independent non-executive director of the Company in 2004. Mr. Chan is an independent non-executive director of Plasmagene Biosciences Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the GEM Board of the Stock Exchange of Hong Kong Limited. He gained his bachelor degree in economics from University of Sydney in 1986 and is qualified as certified practising accountants in both Australia and Macau. Mr. Chan is an associate member of The Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. Mr. Chan has over 16 years of professional experience in accounting, taxation and business consulting with various accountancy, consultancy and trustee companies.

## DIRECTORS' SERVICE CONTRACT

None of the directors has a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, none of the directors nor any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has adopted a share option scheme (the "Share Option Scheme") on 10 December 2001. The purposes of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives and rewards for their contribution to the Group. The Board may, at its discretion, offer employees (including directors) of the Company and/or any of its subsidiaries and other persons who, in the sole discretion of the Board have contributed to the Group, options to subscribe for such number of shares at the subscription price as the Board may determine. Upon acceptance of the options, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

The maximum number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 10% of the total number of shares of the Company in issue prior to the listing of the shares of the Company on the Stock Exchange.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of shares in issue as at the date of grant.

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The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in their absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing prices of the shares as stated in daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

All option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing from the date on which the option is accepted or such later date as the Board may decide (the "Commencement Date") and expiring on an expiry date determined by the Board which shall not be later than the 5th anniversary of the Commencement Date in respect of the relevant option.

The Share Option Scheme will remain in force for a period of 5 years from 10 December 2001.

No option was granted, exercised, lapsed or cancelled during the year or remained outstanding as at 31 December 2004.

The total number of shares available for grant and issue under the Share Option Scheme is 8,999,000 shares representing 2.08% of the issued share capital as at the date of this report.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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 and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

## DIRECTORS' INTERESTS IN CONTRACTS

Details of the directors' interests in contracts of significance in relation to the Group's business are set out in note 32(a) to the financial statements.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company or 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.

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## MANAGEMENT CONTRACTS

On 6 September 2001, GR Investment Holdings Limited ("GR Holdings") entered into an agreement ("the Agreement") with Sinox Fund Management Limited ("SINOX") to extend for one year (from 1 September 2001 to 31 August 2002) the investment management agreement made between GR Holdings and SINOX which expired on 31 August 2001, whereby GR Holdings agrees to engage SINOX and SINOX agrees to serve GR Holdings as the investment manager to provide GR Holdings with investment management services and administrative services. SINOX shall receive from GR Holdings a management fee of 1.5 per cent per annum of the net asset value of GR Holdings payable at the end of each quarter. The Agreement shall be automatically renewable for additional, consecutive term of one year each unless either party provides written notice of at least six months and shall be on substantially the same terms and conditions of the previous agreement which expired on 31 August 2001.

On 12 December 2001, GR Holdings became the wholly owned subsidiary of the Company and accordingly the Company then replaced GR Holdings and assumed one of the parties to the Agreement.

The directors, including the Company's independent non-executive directors, Mr. Yan Mou Keung, Ronald, Mr. Chan Fai Yue, Leo and Mr. Chan Siu Wing, Raymond considered that the Agreement is in the best interests of the Company and was entered into on normal commercial terms, in the ordinary course of business of the Company and that the rate of the management fee is fair and reasonable so far as the shareholders of the Company are concerned.

The Board has also confirmed that a letter pursuant to Rule 14A.38 of the Listing Rules has been issued to the Board by the auditors of the Company.

Pursuant to Rule 21.13 of the Listing Rules, SINOX is a connected person of the Company and, accordingly, the investment management agreement constitutes a connected transaction for the Company under the Listing Rules.

Save as disclosed above, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## CONNECTED TRANSACTIONS

Details of the connected transactions are set out in note 33 to the financial statements. This connected transaction also constitutes a related party transaction.

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## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following persons had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in shares of the Company

Name	Personal Interests*	Family Interests <sup>+</sup>	Corporate Interests <sup>#</sup>	Total Interests	Percentage of issued share capital of the Company	Notes
Golden Resources Development International Limited	—	—	86,202,000	86,202,000	19.95%	1
Baron Strategic Holdings Limited	—	—	78,261,016	78,261,016	18.12%	2
Wan Chuen Chung, Joseph	—	—	78,261,016	78,261,016	18.12%	2
Aimstar Investments Limited	—	—	34,000,000	34,000,000	7.87%	3
Sze Sun Sun, Tony	—	—	34,000,000	34,000,000	7.87%	3
Cosmopolitan International Holdings Limited	—	—	29,092,084	29,092,084	6.74%	

\* Beneficial owner

+ Interests of spouse

# Interests beneficially held by the company itself or through companies controlled by it

Notes:

1. The corporate interests of Golden Resources Development International Limited were attributable on account through a number of its wholly-owned subsidiaries. Ringo Resources Limited held 86,202,000 shares and was a wholly-owned subsidiary of Better Choice Investments Limited which in turn was a wholly-owned subsidiary of Reo Developments Limited. Reo Developments Limited was a wholly-owned subsidiary of Golden Resources Development International Limited. Accordingly, Better Choice Investments Limited, Reo Developments Limited and Golden Resources Development International Limited were all deemed to be interested in the 86,202,000 shares held by Ringo Resources Limited.
2. International Securities Investments Limited held 78,261,016 shares and was a wholly-owned subsidiary of Baron Capital Limited. Baron Capital Limited was a wholly-owned subsidiary of Baron Strategic Holdings Limited which in turn was wholly-owned by Mr. Wan Chuen Chung, Joseph. Accordingly, Baron Capital Limited, Baron Strategic Holdings Limited and Mr. Wan Chuen Chung, Joseph were all deemed to be interested in the 78,261,016 shares held by International Securities Investments Limited.
3. Aimstar Investments Limited was wholly-owned by Mr. Sze Sun Sun, Tony. Mr. Sze Sun Sun, Tony was therefore deemed to be interested in 34,000,000 shares held by Aimstar Investments Limited.

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Save as disclosed above, as at 31 December 2004, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register that required to be kept by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## **PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the Company Act (1981) of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **CODE OF BEST PRACTICE**

Under the requirements of the Listing Rules, an audit committee was formed in 7 January 2002 to review and supervise the Company's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors namely Mr. Yan Mou Keung, Ronald, Mr. Chan Fai Yue, Leo and Mr. Chan Siu Wing, Raymond so as to ensure that the Code of Best Practice as set out in Appendix 14 of the Listing Rules ("the Code of Best Practice") can be duly complied with. Meetings of the audit committee have been held at least twice annually.

In the opinion of the directors, the Company has complied with the Code of Best Practice throughout the year except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-Laws.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by directors.

Having made specific enquiry of all directors, each of them has complied with the required standard as set out in the Model Code.

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## DISCLOSURE PURSUANT TO RULES 13.13 AND 13.16 OF THE LISTING RULES

### Advance to entities under Rule 13.13 of the Listing Rules

Details of the relevant advance to entities by the Group as at 31 December 2004 in which individually exceeds the relevant percentage ratios of 8% under Rule 13.13 of the Listing Rules are as follows:

Entities	Attributable interest held by the Group %	Advances (A) HK\$'000	Guarantees given (B) HK\$'000	Extent of guaranteed facilities utilized HK\$'000	Aggregate of advances and guarantees given (A+B) HK\$'000	Notes
Dragon Fortune Limited	18.00	48,140	—	—	48,140	a
Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited	14.40	—	13,573	13,573	13,573	b
Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited	14.40	—	9,855	9,855	9,855	c
<b>Aggregate of Dragon Fortune Limited and its subsidiaries</b>		48,140	23,428	23,428	71,568	d
Yuen Loong Steel Company Limited	—	13,312	—	—	13,312	e

Notes:

- The advances were made as shareholder's loans to finance the investment made by Dragon Fortune Limited ("Dragon Fortune") and were interest free, unsecured and not repayable within the next twelve months.
- The entire paid up capital of Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited ("FL Real Estate") is owned as to 80% by Fortune Leader Investment Limited ("FLIL"), a direct wholly-owned subsidiary of Dragon Fortune, and as to 20% by an independent third party, who is not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. The guarantee was given for loan facilities granted to FL Real Estate.



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- c. The entire paid up capital of Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited ("FL Investment") is owned as to 80% by FLIL, a direct wholly-owned subsidiary of Dragon Fortune, and as to 20% by an independent third party, who is not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. The guarantee was given for loan facilities granted to FL Investment.
- d. Aggregated pursuant to Rule 13.11(2)(c) of the Listing Rules.
- e. The interest bearing advance was made as loan to Yuen Loong Steel Company Limited, it carried interest at Hong Kong dollar prime rate and was unsecured and with maturity date on 9 March 2005.

## Financial assistance and guarantees given for facilities granted to affiliated companies under Rule 13.16 of the Listing Rules

Details of the financial assistance and guarantees given for facilities granted to affiliated companies by the Group as at 31 December 2004 in aggregate exceeds the relevant percentage ratios of 8% under Rule 13.16 of the Listing Rules are as follows:

Affiliated Companies	Attributable interest held by the Group	Financial assistance (A)	Guarantees given (B)	Extent of guaranteed facilities utilized	Aggregate of financial assistance and guarantees given (A+B)	Notes
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Luck Point Investments Limited	35.00	5,022	—	—	5,022	a
Happy Online Group Limited	33.75	173	—	—	173	b
Bright Honest Limited	25.00	12,000	4,750	4,000	16,750	c
<b>Total</b>		<b>17,195</b>	<b>4,750</b>	<b>4,000</b>	<b>21,945</b>	<b>d</b>

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**The proforma combined balance sheet of the above affiliated companies as at 31 December 2004 is as follows:**

	HK\$'000
Non-current assets	11,120
Current assets	50,468
Current liabilities	492
Net current assets	49,976
Non-current liabilities	61,978
Shareholders' deficits	(882)

Notes:

- a. The financial assistance was made as shareholder's loans to finance the investment made by Luck Point Investments Limited and were interest free, unsecured and not repayable within the next twelve months.
- b. The financial assistance was made as shareholder's loans to finance the investment made by Happy Online Group Limited and were interest free, unsecured and not repayable within the next twelve months.
- c. The financial assistance was made as shareholder's loans to finance the investment made by Bright Honest Limited and were interest free, unsecured and not repayable within the next twelve months. The guarantees were given by the Company for loan facilities granted to Great Fidelity Limited, a direct wholly-owned subsidiary of Bright Honest Limited.
- d. Aggregated pursuant to Rule 13.16 of the Listing Rules.

## AUDITORS

On 9 July 2001, Grant Thornton was appointed as the first auditors of the Company. On 1 November 2001, Grant Thornton tendered their resignation as the auditors of both the Company and GR Holdings. Subsequently, HLM & Co. was appointed as auditors of the Company by the Board on the same date to fill the casual vacancy.

On 1 September 2003, HLM & Co. tendered their resignation as the auditors of the Company and then RSM Nelson Wheeler was appointed as auditors of the Company by the Board on the same date to fill the casual vacancy.

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*For the year ended 31 December 2004*

RSM Nelson Wheeler retires at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**LEE Yip Wah, Peter**

*Secretary*

Hong Kong, 3 February 2005