

# Directors' Report

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

## **CHANGE OF COMPANY'S NAME**

On 25 August 2004, the Company changed its name from First Asia Capital Investment Limited 第一亞洲資本投資有限公司 to China Financial Industry Investment Fund Limited 中國金融產業投資基金有限公司.

## **PRINCIPAL ACTIVITY**

The Company was incorporated on 28 June 2002 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal activity of the Company is investment in listed and unlisted companies in Hong Kong and in the PRC.

The Shares of the Company were listed on the Stock Exchange with effect from 27 September 2002.

No business or geographical analysis of the Company's performance for the year as the Company did not have any turnover during the year and contributions to operating results of the Company are attributable to investments in Hong Kong listed and unlisted equity securities. In addition, the assets and liabilities are located and across in Hong Kong respectively.

## **RESULTS AND APPROPRIATIONS**

The results of the Company for the year ended 31 December 2004 and the state of affairs of the Company at that date are set out in the financial statements on pages 14 to 29.

The Board has resolved not to recommend the payment of dividend for the year ended 31 December 2004 (2003: Nil).

## **RESERVES**

Details of the movements in reserves of the Company during the year are set out in Note 18 to the financial statements.

As at 31 December 2004, the Company's reserves available for distribution to shareholders were HK\$3,215,000 (2003: HK\$10,657,000) under the Companies Law of the Cayman Islands.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company during the year are set out in Note 17 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Memorandum and Articles of Association and there is no restriction against such rights under the laws of Cayman Islands.

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

During the year ended 31 December 2004, the Company has not purchased, sold nor redeemed any of its listed securities.

# Directors' Report

## **DIRECTORS**

The directors during the financial year were:

### **Executive Directors**

Mr Li Sze Tang (*Chairman*)

Mr Wu Tse Wai, Frederick (Appointed on 6 January 2004)

Mr Tam Wai Keung, Billy (Appointed on 26 July 2004)

Mr Chiu Sui Keung (Resigned on 6 January 2004)

### **Independent Non-executive Directors**

Mr Chow Wan Hoi, Paul (Appointed on 5 July 2004)

Mr Hui Wing Sang, Wilson (Appointed on 5 July 2004)

Mr Tang King Fai, Kelvin (Appointed on 30 September 2004)

Mr Kwok Ming Wa (Resigned on 19 July 2004)

Mr Wang Tianye (Resigned on 5 July 2004)

Pursuant to Articles 88 and 89 of the Company's Articles of Association, Mr Wu Tse Wai, Frederick will retire by rotation and, being eligible, offer himself for re-election.

Pursuant to Article 87 (3) of the Article of Association, Mr Tang King Fai, Kelvin being director appointed after 2004 annual general meeting of the Company, shall retire and, being eligible, offers himself for re-election.

## **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors, except Mr Tam Wai Keung, Billy, has entered into a service contract with the Company. Service contract with Mr Li Sze Tang and Mr Chiu Sui Keung was commenced on 27 September 2002, with initial fixed terms of three years and one year respectively. On 6 January 2004, Mr Chiu Sui Keung resigned as an executive director of the Company, and Mr Wu Tse Wai, Frederick was appointed as the Company's executive director on the same day. His service contract commenced on 6 January 2004, with initial fixed term of one year. All director's service contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the respective initial fixed terms. There is no service contract between the Company and Mr Tam Wai Keung, Billy. Each of these executive directors, except Mr Tam Wai Keung, Billy, is entitled to their respective basic salary (subject to an annual increment of not more than 5% of the annual salary at the time of the relevant review at discretion of the directors). In addition, in respect of each financial year of the Company, each of the executive directors is also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive directors in respect of any financial year of the Company may not exceed 15% of the audited net profit of the Company (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive director is required to abstain from voting and is not counted in the quorum in respect of any resolutions of the directors regarding the amount of the monthly salary and the discretionary bonus payable to himself.

There is no service contract signed between the Company and each of Mr Chow Wan Hoi, Paul, Mr Hui Wing Sang, Wilson and Mr Tang King Fai, Kelvin. The directors of the Company, including independent non-executive directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

Saved as disclosed above, no other director has entered into service agreement with the Company which is not determined by the Company within one year without payment of compensation, other than statutory compensation.

# Directors' Report

## ***DIRECTORS' INTERESTS IN CONTRACTS***

The directors' interests in contracts are set out in Note 20 to financial statements. Apart from foregoing, no other contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

At no time during the year was the Company a party to any arrangements to enable the directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any associated corporations.

## ***DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES***

As at 31 December 2004, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

<b>Name of directors</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>% of issued shares</b>
Mr Li Sze Tang	Corporate	5,320,000 <i>(Note)</i>	10.64%
Mr Tam Wai Keung, Billy	Personal	8,250,000	16.50%

*Note:* These shares are held by First Asia International Holdings Limited, the entire issued share capital of which is held as to 60% by Mr Li Sze Tang and as to 40% by Madam Wong Lap Woon (the spouse of Mr Li Sze Tang).

Other than as disclosed above, none of the directors or chief executives of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

## ***SHARE OPTIONS***

The Company has conditionally adopted the share option scheme pursuant to written resolutions of the sole shareholder adopted on 10 September 2002. The Board of Directors or a duly authorised committee thereof may, at any time following the date of adoption and before the tenth anniversary thereof, offer to grant to any directors (including independent non-executive directors) or full-time employees of the Company, an option to subscribe for shares of the Company. The subscription price will be determined by the Board (subject to adjustment), and will not be less than (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheets for the five consecutive trading days immediately preceding the date of grant; or (iii) the nominal value of the shares of the Company, whichever is the highest. The maximum number of shares of the Company in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option may be exercised at any time before the expiration of ten years from the date of adoption of the relevant share option scheme.

As at 31 December 2004, no option has been granted or agreed to be granted under the share option scheme.

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## ***SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES***

As at 31 December 2004, the interests or short positions of persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

<b>Name of shareholders</b>	<b>Number of ordinary shares held</b>	<b>% of issued shares</b>
Mr Wong Kam Fu ( <i>Note 1</i> )	12,372,000	24.744%
Shanghai Sky Investments Limited ( <i>Note 1</i> )	10,000,000	20%
First Asia International Holdings Limited ( <i>Note 2</i> )	5,320,000	10.64%

*Note:* (1) Mr Wong Kam Fu owns the entire interest of Shanghai Sky Investments Limited and Super Biotech Enterprises Limited. Shanghai Sky Investments Limited owns 10,000,000 shares representing 20% of the entire issued shares of the Company and Super Biotech Enterprises Limited owns 2,372,000 shares representing 4.744% of the entire issued shares of the Company. Accordingly, Mr Wong Kam Fu is deemed to be interested in the shares through his interest in Shanghai Sky Investments Limited and Super Biotech Enterprises Limited.

(2) The entire issued share capital of First Asia International Holdings Limited is held as to 60% by Mr Li Sze Tang and as to 40% by Madam Wong Lap Woon (the spouse of Mr Li Sze Tang).

Other than as disclosed above, the Company has not been notified of any other interests or short positions in shares and underlying shares of the Company representing 5% or more of the issued shares capital of the Company as at 31 December 2004.

## ***MANAGEMENT CONTRACTS***

No contract concerning the management and administration of the whole or any substantial parts of the business of the Company were entered into or existed during the year.

## ***MAJOR CUSTOMERS AND SUPPLIERS***

The Company's entire turnover is derived from the Company's investment in equity securities listed or unlisted in Hong Kong and the PRC and thus the disclosure of information regarding to customers and suppliers would not be meaningful.

## ***CONNECTED TRANSACTIONS***

### ***Investment Management Agreements***

Pursuant to the investment management agreement dated 10 September 2002, the Company appointed Hantec Asset Management Limited ("Hantec Asset Management") as its investment manager. The investment manager has agreed to provide the Company with investment management services for a period commencing on 27 September 2002 and expiring on the second anniversary thereof and shall continue for successive periods of two years. An investment management fee of HK\$700,000 per annum payable monthly in advance by twelve equal monthly instalments of approximately HK\$58,000 each would be paid to Hantec Asset Management. On 16 April 2003, the Company has entered into a revised investment management agreement with Hantec Asset Management to reduce the investment management fee to HK\$280,000 per annum. Mr Tang Yu Lap, a former director of the Company, had beneficial interests in Hantec Asset Management.

The Company entered into the interim investment management agreement with Avanta Investment Management Limited ("Avanta") as its interim investment manager on 16 December 2004 in succession to Hantec Asset Management for the provision of investment management services to the Company. Avanta agreed to provide the Company with investment management services for three months commencing on 16 December 2004 and shall continue for successive periods of three months each unless terminated at any time by either the Company or the interim investment manager by serving on the other party not less than one month prior notice in writing. An investment management fee of HK\$95,000 per quarter would be paid in advance on a monthly basis in advance net of tax incurred as a result of the payment, except for Hong Kong profits tax, to Avanta Investment Management.

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## *CONNECTED TRANSACTIONS (Continued)*

### *Custodian Agreements*

Pursuant to the custodian agreement dated 10 September 2002, the Company appointed Standard Chartered Bank as its custodian. Standard Chartered Bank has agreed to provide the Company with securities services including the safe custody and physical settlement of the securities in the investment portfolio of the Company, and the collection of dividends and other entitlements in respect of such securities.

On 11 March 2005, the Company entered into the custodian agreement with Bank of Communications Trustee Limited as its custodian in succession Standard Chartered Bank for the provision of custody services. The custodian agreement will continue in force until terminated by either the Company or the custodian by giving to the other not less than 90 days' notice in writing expiring at any time.

The board of directors, including the independent non-executive directors, is of the view that the above connected transaction has been entered into on normal commercial terms, on an arm's length basis and in the ordinary and usual course of business of the Company, and that the terms of the above connected transaction are fair and reasonable to the shareholders and the Company as a whole.

## *COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES*

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange at any time during the year ended 31 December 2004 except that the non-executive directors by 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, comprising three independent non-executive directors, together with the management, has reviewed management the accounting principles and practices adopted by the Company and has discussed internal control and financial reporting matters including a review of the financial statements for the year ended 31 December 2004.

## *SUBSEQUENT EVENTS*

Details of the significant subsequent events are set out in Note 21 to the financial statements.

## *AUDITORS*

Messrs HLB Hodgson Impey Cheng were appointed by the Board of Directors on 25 March 2003 to act as auditors of the Company to fill the casual vacancy arising from the resignation of Messrs PKF.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs HLB Hodgson Impey Cheng as auditors of the Company.

Apart from the foregoing, there were no other changes of auditors of the Company during the past three years.

On behalf of the Board

**Tam Wai Keung, Billy**

*Executive Director*

Hong Kong, 20 May 2005