

Report of the Directors

The directors herein present their first report and the audited financial statements of the Company and the Group for the period from 12 July 2000 (date of incorporation) to 30 June 2001 (the "period").

PRINCIPAL ACTIVITIES

Apart from the issue of shares as disclosed in note 12 to the financial statements, the Company was inactive from its date of incorporation to 8 June 2001, being the first day on which the shares of the Company were traded on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding, while the Group is principally engaged in investing in listed and unlisted companies established and/or doing business in Hong Kong and other parts of the People's Republic of China (the "PRC"). The Group paid a deposit for its initial investment prior to the balance sheet date, and made further investments after the balance sheet date, as detailed in notes 10 and 17, respectively, to the financial statements. Details of the principal activities of the subsidiaries as at the balance sheet date are set out in note 11 to the financial statements.

SEGMENTED INFORMATION

No segmented information is provided as the Group had no investment activities during the period.

RESULTS

The Group's loss for the period from 12 July 2000 (date of incorporation) to 30 June 2001 and the state of affairs of the Company and the Group at 30 June 2001 are set out in the financial statements on pages 14 to 26.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 9 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital since 12 July 2000, together with reasons therefor, are set out in note 12 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 13 to the financial statements.

DISTRIBUTABLE RESERVES

At 30 June 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$30,511,172. Under the Companies Law (2000 Revision) of the Cayman Islands concerning the application of the share premium account, this amount is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company's shares were listed on the Stock Exchange on 8 June 2001. Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period from 8 June 2001 to the date of this report.

Report of the Directors (Continued)

DIRECTORS

The directors of the Company during the period were:

Executive directors:

Ms. Chiu Kam Hing, Kathy (*Chairman*)
(appointed on 12 July 2000)

Mr. Pong Po Lam
(appointed on 1 March 2001)

Ms. Ho Pansy Chiu King
(appointed on 1 March 2001)

Non-executive directors:

Mr. Lau Sak Hong
(appointed on 1 March 2001)

Dr. Chan Po Fun, Peter
(appointed on 1 March 2001)

Independent non-executive directors:

Dr. Lee Tung Hai
(appointed on 1 March 2001)

Dr. Cheung Wai Bun, Charles
(appointed on 1 March 2001)

In accordance with article 87(3) of the Company's articles of association, Mr. Pong Po Lam, Ms. Ho Pansy Chiu King, Mr. Lau Sak Hong, Dr. Chan Po Fun, Peter, Dr. Lee Tung Hai and Dr. Cheung Wai Bun, Charles will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors but not including the chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

DIRECTORS' SERVICE CONTRACTS

Ms. Chiu Kam Hing, Kathy has entered into a service contract with the Company for an initial term of three years commencing from 8 June 2001, the date on which the dealing in the shares in the Company on the Stock Exchange commenced. The service contract may be terminated by either party thereto giving to the other three months' prior notice in writing, providing that the notice period shall not expire at any time during the first year.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the related party and connected transactions which are disclosed below and in note 16 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or its subsidiaries was a party during the period.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company pursuant to the SDI Ordinance or as notified to the Company were as follows:

Name of director	Notes	Nature of interest	Number of ordinary shares
Ms. Chiu Kam Hing, Kathy	(a)	Corporate	5,000,000
Ms. Ho Pansy Chiu King	(b)	Corporate	3,000,000
Mr. Lau Sak Hong	(c)	Corporate	500,000

Notes:

- (a) The shares are held by Good Win Holdings Limited, a company wholly-owned by Ms. Chiu Kam Hing, Kathy.
- (b) The shares are held by Bond Dollar Assets Limited, a company wholly-owned by Ms. Ho Pansy Chiu King.
- (c) The shares are held by Sixlights Development Limited which is wholly-owned by Starlight International Holdings Limited, a company listed on the Stock Exchange, which is in turn owned as to approximately 31.9% by Mr. Lau Sak Hong and his associates.

Report of the **Directors** (Continued)

DIRECTORS' INTERESTS IN SHARE CAPITAL (continued)

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under a share option scheme (the "Scheme") approved by the shareholders of the Company on 24 May 2001, the directors of the Company may, at their discretion, invite employees, including executive directors of the Company and its subsidiaries, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated by the Scheme. As at 30 June 2001, no options had been granted under the Scheme.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangement 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.

The Company did not grant any other right to subscribe for shares in the Company to any director or chief executive of the Company or their respective spouse or children under 18 years of age during the period.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 17 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that at 30 June 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of ordinary shares
Good Win Holdings Limited	5,000,000

PENSION SCHEMES AND COSTS

The Group did not operate any retirement scheme except for the Mandatory Provident Fund ("MPF") scheme during the period.

The Group is required to contribute to the MPF based on the rates applicable to the respective monthly salaries of employees based in Hong Kong in accordance with government regulations. No contributions were made during the period as the first contribution to the scheme was made in September 2001.

RELATED PARTY AND CONNECTED TRANSACTIONS

Pursuant to the Interim Investment Management Agreement dated 24 May 2001 between the Company and Pegasus Fund Managers Limited (the "Interim Investment Manager"), the Interim Investment Manager has agreed to provide interim investment management services to the Company for a monthly management fee payable in advance, calculated at 0.5% per annum of the net asset value of the Group as at the end of the preceding month on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Interim Investment Management Agreement commenced on the date of the commencement of the trading of the Company's shares on the Stock Exchange and was to expire on the earlier of the date falling exactly six months from this commencement date or the seventh business day after receipt by the Interim Investment Manager from

Report of the Directors (Continued)

RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

the Company of the notice of approval for the registration of the Investment Manager (defined below) as an investment adviser under the Securities Ordinance.

Mr. Pong Po Lam, an executive director, has a 91.57% equity interest in the issued share capital of the Interim Investment Manager. The Interim Investment Management Agreement expired subsequent to the balance sheet date, on 4 July 2001.

During the period, an investment management fee amounting to HK\$14,000 was payable to the Interim Investment Manager for services rendered.

Pursuant to the Investment Management Agreement dated 24 May 2001 between the Company and Glory Investment Assets Limited (the "Investment Manager"), the Investment Manager has agreed to provide the Company with investment management services and general administrative services after it is registered as an investment adviser under the Securities Ordinance. The Investment Manager was registered as an investment adviser under the Securities Ordinance on 19 June 2001 for a three-year period commencing on the date immediately after the expiration of the term of the Interim Investment Management Agreement. Under the Investment Management Agreement, the Investment Manager is entitled to a monthly management fee payable in advance at 2.5% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. In addition, the Investment Manager is also entitled to 15% of an increase in net asset value of the Group over a financial year or period. The Investment Management Agreement became effective subsequent to the balance sheet date, on 5 July 2001. No fee was paid to the Investment Manager during the period.

Ms. Chiu Kam Hing, Kathy, the chairman of the Company and an executive director, has a 30%

equity interest in the Investment Manager and is one of the directors of the Investment Manager.

Details of the related party transactions of the Group are set out in note 16 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, following the listing of the Company's shares on the Stock Exchange on 8 June 2001 and up to the date of this report, except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

The Company established an audit committee (the "Committee") on 24 May 2001, with written terms of reference, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises two independent non-executive directors. One meeting was held by the Committee subsequent to the balance sheet date.

AUDITORS

Ernst & Young were appointed by the directors as the first auditors of the Company. Ernst & Young now retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chiu Kam Hing, Kathy

Chairman

Hong Kong
16 October 2001