

INTRODUCTION

The Board is responsible for formulating the Company's overall investment strategies and guidelines in accordance with the investment objectives and policies of the Company. Pursuant to the Investment Management Agreement, the Investment Manager shall undertake all investment and management duties in relation to the Company and its assets subject to the investment policies, guidelines, strategies and decisions of the Board from time to time. The Investment Manager will be responsible for identifying, receiving, evaluating and analysing investment and divestment opportunities for the Company. The Investment Manager will report the result of such investment analysis to the Board. Subject to and in accordance with the direction of the Board and the investment policies adopted by the Company from time to time, the Investment Manager shall have absolute discretion over the assets of the Company, including acquisitions and disposals of assets, provided that the value of each transaction does not exceed the Investment Limit except for derivative financial products. In the case of derivative financial products, the aggregate value of the Company's commitment or right to purchase, sell, transfer or otherwise receive assets from time to time shall not exceed the Investment Limit. It is the intention of the Board that the Company will only issue or purchase derivative financial products for hedging purposes. The Investment Manager will need to obtain written approval from the Board prior to making any investment or divestment which exceeds the Investment Limit or in the case of derivative financial products which will result in the aggregate value of the Company's commitment or right to purchase, sell, transfer or otherwise receive assets to exceed the Investment Limit.

THE INVESTMENT MANAGERS

Interim Investment Manager

Pursuant to the Interim Investment Management Agreement, the Interim Investment Manager is appointed as the interim investment manager to provide interim investment management services to the Company pending the registration of the Investment Manager as an investment adviser under the Securities Ordinance.

The Interim Investment Manager is an investment adviser registered under the Securities Ordinance. The Interim Investment Manager, wholly beneficially owned by Mr. Andrew Nan Sherrill, was founded on 14th May, 1997. From 1997 to 1999, the Interim Investment Manager was appointed the investment adviser of the AsiaVest "Mid Cap Value" Fund, an offshore fund which was not offered for sale to the Hong Kong public. The fund was launched in 1997 by issuing 32 million shares at US\$1.00 each raising US\$32 million. Since the financial turmoil in August 1997, the overall market condition for medium and small cap listed companies was both poor in liquidity as well as performance. From 1st January, 1999 to 17th June, 1999 (the last date of the valuation of the fund), around 50% of the holders of the fund redeemed the shares. Due to the majority of shareholders of the fund requesting for redemption, the directors of the fund were of the opinion that the poor current market condition at that time and the remaining size of the fund would no longer be fair for the remaining shareholders of the fund to be continuing operative on a cost effective and efficient basis. The fund closed down in 1999. Since 1999, Mr. Sherrill, through the Interim Investment Manager, has

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been focusing its investment and advisory service to companies in Japan and Asia which include advisory services on fund raising exercises, restructuring of debt and capital base, mergers and acquisitions. Since 1997, both the Interim Investment Manager and Mr. Sherrill have been registered as investment advisers under the Securities Ordinance.

Directors of the Interim Investment Manager

The executive directors of the Interim Investment Management include Mr. Andrew Nan Sherrill and Mr. Wu Bi-Pei, Lawrence. The particulars of Mr. Andrew Nan Sherrill are set out in pages 40 and 41 of this prospectus. Set out below are the particulars of Mr. Wu Bi-Pei, Lawrence:

Wu Bi-Pei, Lawrence, aged 48, is a graduate of Soochow University in Taiwan with a master's degree in business administration majoring in accounting. He has over 15 years of experience in the banking and finance field in Taiwan. From 1988 to 1989, he was a vice president in charge of finance division at Lyi Chong Enterprise Co Ltd. From 1989 to 1996, he served as a vice president of the China Venture Management Inc., a Taiwan company, responsible for managing discretionary third party funds in excess of US\$100 million. He also provided investment advice to professional and institutional investors in investing in Taiwan listed companies. Since October 2001, he has been the chairman of Lead Data Incorporation, a company listed on the Stock Exchange of Taiwan.

Investment Manager

The Investment Manager will replace the Interim Investment Manager as the investment manager to provide investment management services to the Company when it is registered as an investment adviser under the Securities Ordinance. Application has been made by the Investment Manager to the Securities and Futures Commission for registration as an investment adviser under the Securities Ordinance in February, 2002 and it is expected that the approval will be obtained in or about June 2002. The Investment Manager is beneficially held as to 25% by Mr. Chan Yan Ming, Michael, as to 37.5% by Mr. Ma Kam Fook, Robert and as to 37.5% by Mr. Chen Wen Suei, Brian.

Directors of the Investment Manager

Mr. Ma Kam Fook, Robert, aged 50, whose particulars are set out on page 41 of this prospectus.

Mr. Ma Ming Fai, Gary, aged 38, is a member of the Institute of Chartered Accountants of Ontario in Canada by training and had worked with an international accounting firm for several years. Mr. Ma received his bachelor of commerce degree from the University of Calgary, Canada in 1985. He was an executive director of Sino-Pacific Light Industry Fund Management Ltd from May 1998 to April 2000 during which he participated in the management of China Light Industry Fund (for details of the fund, please refer to the particulars of Mr. Ma Kam Fook, Robert set out on page 41 of this prospectus). He is also the Chairman of Xteam Software International Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in December 2001.

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The Interim Investment Manager or the Investment Manager (as the case may be) may draw upon the research capabilities of and information resources available to it or its affiliates. They may also draw upon the research and investment ideas of other companies whose brokerage services they utilise. Subject to and in accordance with the direction of the Board and the investment policies adopted by the Company from time to time, the Interim Investment Manager or the Investment Manager (as the case may be) shall have absolute discretion over the assets of the Company, including acquisitions and disposals of assets, provided that the value of each transaction does not exceed the Investment Limit save and except for derivative financial products. In the case of derivative financial products, the aggregate value of the Company's commitment or right to purchase, sell, transfer or otherwise receive assets from time to time shall not exceed the Investment Limit. The Interim Investment Manager or the Investment Manager (as the case may be) will need to obtain requisite approval of the Board if the Investment Limit is exceeded or, in the case of derivative financial products, which will result in the aggregate value of the Company's commitment or right to purchase, sell, transfer or otherwise receive assets to exceed the Investment Limit. In the event the Board delegates any of its powers to committees formed pursuant to the Articles consisting of such persons as the Board thinks fit, both the Interim Investment Manager and the Investment Manager shall obtain the requisite approval from such committee. No such committees have been formed at present and the Board does not have any immediate intention to form any.

Subject to, and in accordance with, the direction of the Board and the investment policies adopted by the Company from time to time, the Interim Investment Manager or the Investment Manager (as the case may be) will be responsible for, among other things:—

- (i) identifying, reviewing and evaluating investment and divestment opportunities for the Company and negotiating the terms of such investment and divestment for the Company;
- (ii) considering and evaluating potential investments and rendering investment advice to the Board based upon such information as may reasonably be available to it and, in particular, assisting the Board in structuring acquisitions and disposals, submitting investment and divestment proposals to the Board and making investment recommendations to the Board regarding potential investments and divestments for the Company identified by the Interim Investment Manager or the Investment Manager (as the case may be) or the Board;
- (iii) providing the Board with such information as may reasonably be available to it on opportunities to acquire or to divest investments of which the Interim Investment Manager or the Investment Manager (as the case may be) becomes aware and which in the reasonable opinion of the Interim Investment Manager or the Investment Manager (as the case may be) are or may be suitable for the Company provided always that the Interim Investment Manager or the Investment Manager (as the case may be) shall not be required to disclose information concerning its other clients which is presented to the Interim Investment Manager or the Investment Manager (as the case may be) by such other clients on a confidential basis and which remains confidential;

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- (iv) making all necessary arrangements to effect any investments and disposal in accordance with the instructions of the Board;
- (v) monitoring and keeping under review the performance and status of the assets from time to time, based on information as may reasonably be available to it, and providing the Board with any assistance in relation to the Company's investments as it may require;
- (vi) assessing whether it is reasonable to make provision for future expenses and/or any possible diminution in value of investments out of the net amount derived from interest, dividends and other income received by the Company after meeting expenses, and considering the amount of cash required for further investment by the Company;
- (vii) reporting the result of the investment analysis to the Board not less than once a month; and
- (viii) acting in accordance with all reasonable instructions given and authorities delegated to it from time to time by the Board and keeping the Board fully informed as to the discharge of its powers and duties under the Interim Investment Management Agreement or the Investment Management Agreement (as the case may be).

Both the Interim Investment Management Agreement and the Investment Management Agreement are conditional upon (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Shares to be issued as mentioned herein and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme; and (ii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms. The Investment Management Agreement is also conditional upon the Investment Manager having been registered as an investment adviser under the Securities Ordinance within 12 months from the commencement of trading of the Shares on the Stock Exchange.

The Interim Investment Management Agreement commences on the date of the commencement of the trading of the Shares on the Stock Exchange and expires on the earlier of the date falling exactly six months from the date of the commencement of the trading of the Shares on the Stock Exchange or the seventh Business Day after receipt by the Interim Investment Manager from the Company of notice of approval for the registration of the Investment Manager as an investment adviser under the Securities Ordinance. Should the Investment Manager fail to obtain approval for registration as an investment adviser under the Securities Ordinance within six months from the date of the commencement of trading of the Shares on the Stock Exchange, the Interim Investment Management Agreement will be automatically extended for successive periods of 3 months each. The Interim Investment Management Agreement will lapse in the event that the Investment Manager fails to obtain approval of registration as an investment adviser under the Securities Ordinance within 12 months from the date of the commencement of the trading of the Shares on the Stock Exchange. In such event, the Company will appoint another investment manager to provide investment management services after the expiration of the Interim Investment Management Agreement. The Interim Investment Manager has indicated its willingness to continue to provide investment management services on principally the same terms as those set out in the Investment Management Agreement as described in pages 50 and 51 of this prospectus should the Investment Manager fail to obtain the approval for registration. There is, however, possibility that another investment manager may be appointed on terms acceptable by the Company after the termination of the Interim Investment Manager.

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The Investment Management Agreement is for a period of three years commencing on the date immediately after the expiration of the term of the Interim Investment Management Agreement and is, subject to the approval of the independent Shareholders, to continue for successive periods of three years each unless terminated at any time by either the Company or the Investment Manager serving not less than six months' notice in writing to the other party to expire on the last day of the three year period or to expire on the last day of the relevant successive periods.

The Investment Manager expects to obtain the approval for registration as an investment adviser under the Securities Ordinance in or about June 2002. Upon registration of the Investment Manager as an investment adviser as aforesaid and the expiration of the Interim Investment Management Agreement as described above, the Investment Manager will replace the Interim Investment Manager as the investment manager to provide investment management services to the Company pursuant to the Investment Management Agreement.

The Investment Management Agreement may be terminated with immediate effect at any time by either the Company or the Investment Manager giving written notice to the other party in the event where (a) the other party goes into liquidation (except a voluntary liquidation for the purposes of reconstruction or amalgamation on terms previously agreed by the party), or if a receiver is appointed of the whole or any substantial part of the assets or undertaking of the other party or any administrator is appointed of that party or if that other party convenes a meeting of creditors or makes or proposes to make any arrangement or composition with or assignment for the benefit of its creditors or ceases or threatens to cease to carry on its business; or (b) the other party commits any material breach of the Investment Management Agreement which, if capable of being remedied, is not remedied within twenty eight days from the date of a written request served by the aggrieved party requiring that the breach complained of be remedied. The Investment Management Agreement may be terminated by the Company at any time without compensation to the Investment Manager by giving written notice to the Investment Manager if the Investment Manager is grossly negligent or guilty of wilful misconduct in the performance of its obligations under the Investment Management Agreement or in its business acting as investment manager for other entities generally, or the Investment Manager or its director ceases to be a registered investment adviser in Hong Kong.

The Investment Management Agreement provides that in the absence of fraud or wilful default, the Investment Manager shall not be liable to the Company or the Shareholders for any act or omission in the performance of its services. It also provides for the indemnification of the Investment Manager by the Company against liabilities of whatsoever nature (other than those resulting from fraud or wilful default on the part of the Investment Manager) arising out of or in connection with the performance of its services.

POTENTIAL CONFLICT OF INTERESTS

It is possible that the Investment Manager, the Interim Investment Manager or any other investment adviser as may be appointed by the Company from time to time, may, in the course of its business, have potential conflict of interests with the Company. For instance, associated companies or directors of the Investment Manager, the Interim Investment Manager or other investment advisers may act as underwriters for securities sold to the Company or provide investment management and/or advisory services to other clients (including other funds). The Investment Manager, the Interim Investment Manager, their associated companies or their directors will be free to render services similar to those which they are providing to the Company to other clients (including other funds) so long as services provided to the Company by the Investment Manager and the Interim Investment Manager are not thereby impaired. Further, the Investment Manager, the Interim Investment Manager, their associated companies or any of their respective directors may receive commission, brokerage and other charges in relation to the sale or purchase of any investment by the Company.

Subject to the restrictions and requirements applicable from time to time as required by the Listing Rules, the Company may acquire or dispose of securities or other forms of investment from or to the associated companies of the Investment Manager or the Interim Investment Manager or any director of the Investment Manager, the Interim Investment Manager or such associated companies, with the prior written approval of the Board (other than the Director(s) who is/are interested in such acquisition or disposal) or, where the acquisition or disposal involves the higher of either HK\$10,000,000 or 3% of the book value of the net tangible assets of the Company as disclosed in its latest published audited accounts, with the prior approval of the Shareholders (other than the Shareholder(s) who are interested in such acquisition or disposal).

The Investment Manager or the Interim Investment Manager reserves the right for itself and/or its affiliates to co-invest on their own or for other funds and/or clients with the Company, although any such co-investment must be made on terms no better than those in which the Company is investing, and may also make investments in companies in which the Company has previously invested. The Investment Manager or the Interim Investment Manager shall, in any event, disclose to the Company any transaction involving investments in which the Company has invested or may reasonably be expected to invest before the Investment Manager or the Interim Investment Manager enters into such transactions on its own account or on behalf of any third party by giving a notice to the Board to that effect, provided always that the Investment Manager or the Interim Investment Manager shall not be required to disclose information about its other clients, which is subject to client confidentiality.

Conflicts may arise in the allocation of resources and attention by the Investment Manager or the Interim Investment Manager between the Company and other funds managed or advised by and/or other clients of the Investment Manager or the Interim Investment Manager. Conflicts may also arise in the allocation of investment opportunities identified by the Investment Manager and the Interim Investment Manager (as the case may be) between the Company and other funds managed or advised by and/or clients of the Investment Manager and the Interim Investment Manager (as the case may be).

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The Interim Investment Manager, which will act as the interim investment manager of the Company pending the registration of the Investment Manager as an investment adviser under the Securities Ordinance, is subject to broadly the same provisions as the Investment Manager in respect of any potential conflicts of interest and may promote, manage, advise or otherwise be involved in any other funds or investment companies while it acts as the interim investment manager of the Company. Both the Interim Investment Manager and the Investment Manager are authorised to receive and retain soft commission from brokers, dealers, agents, investment advisers or other persons in consideration of directing transactions in relation to the assets and investments of the Company to these persons provided that those goods and services comprised in such soft commission are of demonstrable benefit to the Company, that the transaction execution is consistent with best execution standards and the brokerage rate are not in excess of customary full service brokerage rates.

The Investment Manager and the Interim Investment Manager shall devote such time and effort to the Company's business as is necessary to promote the interests of the Company. If conflicts in relation to investment opportunities do arise between the Company and other funds managed or advised by and/or clients of the Investment Manager and the Interim Investment Manager, the Investment Manager and the Interim Investment Manager will attempt to allocate such investment opportunities on a reasonable basis, after considering factors such as the total amount available for investment by the Company and by such other funds and/or clients as well as whether such other funds and/or clients have any existing interest in the proposed investment. The Investment Manager and the Interim Investment Manager have undertaken that, so long as either of them remains as the investment manager of the Company, it will disclose to the Company any potential conflict of interests involving the Company of which it is aware or has been brought to its attention before entering into any transaction. The Investment Manager and the Interim Investment Manager may receive or retain soft commission from any third parties.

CUSTODIAN

The Company has appointed Standard Chartered Bank to act as custodian to the Company pursuant to the Custodian Agreement. Save for Rule 21.13 of the Listing Rules which renders the Custodian as a connected person, the Custodian is an independent third party not connected with the directors, the chief executive or the substantial shareholder(s) of the Company or any of their associates. The term of appointment of the Custodian under the Custodian Agreement shall commence on the date of the commencement of trading of the Shares on the Stock Exchange and shall continue in force until terminated by either the Company or the Custodian giving to the other not less than 90 days' notice in writing. Pursuant to the Custodian Agreement, the Custodian is responsible for, inter alia, the safe custody of the securities in the investment portfolio of the Company and the collection of dividends and other entitlements in respect of such securities.

The Custodian or persons connected with it may provide banking facilities to the Company or enter into foreign exchange transactions with the Company provided that they do so on the same or better terms than those obtainable from a third party at the relevant time. The Custodian and persons connected with it may contract with or enter into any transaction with the Company in the ordinary course of their banking activities provided that such contract or transaction is on the best terms reasonably obtainable having regard to the interests of the Company.

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FEES AND EXPENSES

The Company will pay the fees to the Investment Manager, the Interim Investment Manager and the Custodian, as described below. In addition, the Company will pay the Investment Manager or the Interim Investment Manager certain other costs and expenses incurred in its operation, including taxes (other than Hong Kong profit tax), expenses for legal, auditing and consultancy services, promotional expenses, registration fees and other expenses due to supervisory authorities in various jurisdictions, insurance, interest, brokerage costs and the cost of publishing the Net Asset Value. The Board is of the view that the fee scales as set out below are in line with prevailing market rates.

The Company will comply with the applicable requirements under Chapter 14 of the Listing Rules and disclose full details by press notice and/or seek independent Shareholders' approval if any of these fees and expenses payable to the Investment Manager, the Interim Investment Manager or the Custodian during its term of service in respect of each financial year of the Company exceeds the de-minimus thresholds as set out in Rule 14.24(5) and/or Rule 14.25(1) of the Listing Rules.

Investment management fee

The Company will pay to the Investment Manager an investment management fee payable semi-annually on 2nd January and 2nd July of each year, in Hong Kong dollars in advance at 2.5% 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 months over a year of 365 days.

Incentive fee

In addition to the investment management fee, the Investment Manager will receive an annual incentive fee payable in Hong Kong dollars equivalent to 15% of the surplus in the Net Asset Value as at the Last Incentive Date in a Financial Year less the Net Asset Value as at the Last Incentive Date of the preceding Financial Year. The incentive fee is payable annually in arrear within 10 Business Days after the annual accounts of the Company have been approved by the Shareholders. For the purpose of calculating the incentive fee for each Relevant Period, the Net Asset Value shall be adjusted in such manner as the Company and the Investment Manager shall agree (or in default of agreement, by the auditors of the Company acting as experts and not as arbitrators who shall be required to certify that such adjustment is fair and reasonable) so as to:

- (a) take account of any repurchase or redemption of Shares; and
- (b) take no account of (that is, include in the calculation of the Net Asset Value as if such distributions had never been made or fees paid) any distributions or dividends made by the Company.

If at any time the calculation of the Net Asset Value is suspended for any of the reasons set out in the Articles, the investment management fee and/or incentive fee, payable semi-annually and annually respectively, shall also be suspended until calculation of the Net Asset Value is resumed. The incentive fee and the investment management fee are calculated on a net of tax basis.

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In addition, the Investment Manager and the Interim Investment Manager are entitled to reimbursement by the Company of their out-of-pocket expenses reasonably and properly incurred in the proper performance of their duties. Save as aforesaid, there is no other fees or incentives that the Investment Manager and Interim Investment Manager will be entitled to receive.

Interim investment management fee

The Company will pay the Interim Investment Manager a fee payable monthly in advance at 2.5% per annum of the Net Asset Value as at the date of listing of the Company on the Stock Exchange, on the basis of the actual number of days in the relevant calendar month over a year of 365 days.

Custodian fee

Pursuant to the Custodian Agreement, the Custodian will receive a fund services fee payable monthly for the provision of standard reports available for fund services including portfolio valuation, acquisition and disposal statement, cash reconciliation etc. at US\$10,000 per annum per portfolio and will be reimbursed of all out-of-pocket expenses. In addition, the Custodian will be paid for the provision of securities services at the following rates based on the countries where the transactions are carried out, subject to revision by the Custodian from time to time in accordance with the terms of the Custodian Agreement.

Market	Custody fee per annum	Transaction fee per transaction	<i>US\$</i>
China	0.10%	65	(listed securities)
		100	(unlisted/physical securities)
Hong Kong	0.05%	30	
Taiwan	0.07%	50	

Fund services fee: US\$10,000 per annum per portfolio

The custodian fee is charged on a monthly basis on the market value of the portfolio as at month end. The custodian fee includes the Custodian's charges for safekeeping, preparing stock registration, collection of income and corporate action processing for the above markets.