
INVESTMENT MANAGEMENT

INTRODUCTION

The Board is responsible for formulating the Company's investment strategies and guidelines in accordance with the investment policies and objectives 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 and strategies devised by the Board from time to time. The Investment Manager will be responsible for analysing investment opportunities identified by it as well as investment opportunities which may be identified by the Board. The Investment Manager will report the result of such investment analysis to the Board. Subject to and in accordance with the directions of the Board and the investment policies adopted by the Company from time to time, the Investment Manager shall implement the Board's decisions on acquisitions and disposals of the assets of the Company, 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 purpose. The Investment Manager will need to obtain written approval from the Board prior to entering into any transaction involving an amount which exceeds the Investment Limit or in the case of financial derivative products which will result in the aggregate value of the Company's commitment or right to purchase, sell, transfer or otherwise receive assets of such nature to exceed the Investment Limit.

THE INVESTMENT MANAGER

Pursuant to the Investment Management Agreement, the Company has appointed the Investment Manager to provide investment management services to the Company.

The Investment Manager was incorporated in Hong Kong with limited liability on 16th June, 1999 and is a wholly-owned subsidiary of Upbest Financial Holdings Limited. Upbest Financial Holdings Limited is wholly and beneficially owned by Upbest Group Limited, a company listed on the Main Board of the Stock Exchange. Upbest Group Limited is 75% beneficially owned by the family trust of Mr. Cheng Kai Ming, Charles and 25% held by the public. The Investment Manager is an investment adviser registered under the Securities Ordinance and is the investment manager of UBA, which invests in listed and unlisted companies in Hong Kong and the PRC. Apart from UBA, the Investment Manager has currently also provided investment management services to six other private investment portfolios for institutional clients which are not listed on any stock exchange.

The aggregate value of the assets managed by the Investment Manager for those private investment portfolios is approximately HK\$779 million. The unaudited consolidated net asset value of UBA as at 28th February, 2002 was approximately HK\$91 million.

EXECUTIVE DIRECTORS OF THE INVESTMENT MANAGER

Mr. Cheng Kai Ming, Charles, aged 55, has been an executive director of the Investment Manager since February 2000. Mr. Cheng is the founder and an executive director of the Upbest Group Limited. Upbest Group Limited, a company listed on the Main Board of the Stock Exchange, is the ultimate holding company of the Sponsor and the Investment Manager, and is 75% beneficially owned by the

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family trust of Mr. Cheng. Mr. Cheng is a full member of the Hong Kong Securities Institute and has various professional qualifications. He has been engaged in the investment advisory and securities business for over twenty years. Mr. Cheng has been a dealer and an investment adviser registered under Securities Ordinance since July 1988 and July 1995 respectively and is a director of Upbest Securities. Mr. Cheng has assisted a number of companies to become listed on the Main Board of the Stock Exchange. Mr. Cheng has managed investment portfolios for institutional clients since 1996 and is currently managing UBA and six other investment portfolios for institutional clients with a total assets value of over HK\$860 million.

Mr. Li Kwok Cheung, George, aged 41, has been an executive director of the Investment Manager since June 1999. Mr. Li is an executive director of Upbest Group Limited and UBA, both companies are listed on the Stock Exchange. He holds a master degree in international marketing from the University of Strathclyde in Glasgow, Scotland, United Kingdom and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Li has been a dealer and an investment adviser registered under the Securities Ordinance since June 2000 and is a director of Upbest Securities. He has managed investment portfolios for institutional clients since 1996 and is currently managing UBA and six other investment portfolios for institutional clients with a total assets value of over HK\$860 million. Mr. Li joined the investment advisory and securities industry in May 1995 and he has been providing investment advice and tailor making investment portfolios for clients. He worked as a senior manager of the compliance division (currently known as the regulation division) of the Stock Exchange for seven years before joining the investment advisory and securities industry in 1995. Mr. Li had also served with a Big-Five international audit firm for five years before joining the Stock Exchange.

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The Investment Manager may draw upon the research capabilities of and information resources available to it or its affiliates. It may also draw upon the research and investment ideas of other companies whose brokerage services it utilizes. 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 implement the Board's decisions on acquisitions and disposals of the assets of the Company, 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 of such nature from time to time shall not exceed the Investment Limit. The Investment Manager will need to obtain written approval from the Board prior to entering into any transaction involving an amount 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 of such nature to exceed the Investment Limit. In the event where the Board delegates any of its powers to committees formed pursuant to the Articles consisting of such persons as the Board thinks fit, the Investment Manager shall obtain the requisite approval from such committee.

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 will be responsible for, among other things,

1. identifying, reviewing and evaluating investment and divestment opportunities which the Directors may require and providing recommendations to the Board;

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2. assisting the Directors to structure acquisitions and disposals and submitting investment and divestment proposals to the Board;
3. negotiating terms of investments and divestments for the Company;
4. making all necessary arrangements to effect any investments and disposals in accordance with the instructions of the Board; and
5. providing the Directors with any assistance which they may require in relation to any investments of the Company.

The Investment Management Agreement is conditional upon (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein and (ii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

The Investment Management Agreement is for a period of three years commencing on the date of this prospectus unless terminated at any time by either the Company or the Investment Manager serving not less than three months' notice in writing prior to the expiration of the three years period or the relevant successive period.

The Investment Management Agreement may be terminated with immediate effect in the event where, inter alia, one of the parties goes into liquidation or receivership; or commits material breach of the Investment Management Agreement which is not remedied within 28 days; or the Investment Manager is grossly negligent or guilty of wilful misconduct or fraud in relation to its obligations under the Investment Management Agreement or in its business acting as investment manager for other entities generally; or the Investment Manager ceases to be a registered investment adviser in Hong Kong.

The Investment Management Agreement provides, inter alia, that in the absence of bad faith, fraud, misconduct, wilful default or negligence on the part of the Investment Manager, 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 the bad faith, fraud, misconduct, negligence 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 INTEREST

At present, the Investment Manager is the investment manager of UBA. If conflicts in relation to investment opportunities do arise between the Company and UBA, the Investment Manager will allocate investment opportunities after considering factors such as (i) the investment policies and objectives in terms of risk/reward profile of the Company and UBA, (ii) the financial resources available for investment by the Company and UBA as well as (iii) whether the Company and other funds have any existing interests in the proposed investment. The Company's investment direction is to achieve short to medium term (i.e. less than one year to five years) capital appreciation and will have a balanced portfolio between listed and unlisted investments. Meanwhile, UBA intends to achieve medium term capital appreciation and has a higher proportion of its portfolio invested in listed investments. The Company and UBA have

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different investment objectives and policies and have their own independent boards of directors, different portfolios and different size of investment funds. Accordingly, their respective investment policies and objectives in terms of risk/reward profile would be different.

Furthermore, the boards of directors of the Company and UBA would make their own decision on whether to proceed the proposed investment opportunities. In order to resolve the potential conflict of interest in allocating investment opportunities between the Company and UBA, the Investment Manager has undertaken that all investment opportunities, in particular, private investments identified by the Investment Manager must be presented to the board of directors of both the Company and UBA timely and equitably. If both companies intend to participate in the same investment, such investment opportunities would be allocated to the Company and UBA on an equitable basis.

If conflicts in relation to investment opportunities arise between the Company and other funds managed or advised by the Investment Manager, the basis of allocation will be the same as above mentioned. The Investment Manager will also ensure that the investment opportunities are allocated to the Company and other funds on an equitable basis.

In addition, the Investment Manager will present all identified investment opportunities, in particular, private investments, to the board of directors of the Company, UBA and other funds if the above conflicts arise.

As disclosed in the paragraph “Directors” under the section “Information on the Company” on pages 33 to 34 of this prospectus, Mr. Chan Nap Kee, Joseph is a managing member of Oriental Patron Capital Growth Fund and a director of Pacific Crown Investment Fund Limited. In view of the differences in the investment objectives, portfolios and size of investment funds, the Directors believe that his roles in these funds would not have conflict of interest with the Company. Mr. Chan will abstain from voting on transactions where conflicts of interest arise, if any, between the Company and Oriental Patron Capital Growth Fund and the funds administered by Pacific Crown Investment Fund Limited.

It is possible that the 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 conflicts of interest with the Company. For instance, the Investment Manager, its associated companies or directors of the Investment Manager or other investment advisers may act as underwriter for securities sold to the Company or provide investment management and/or advisory services to other clients (including other funds). The Investment Manager’s associated companies or directors will be free to render services similar to those which they are providing to the Company and/or to other clients (including other funds) so long as the Investment Manager’s services to the Company are not thereby impaired and the Company’s interests are not thereby directly prejudiced. Further, the Investment Manager or its associated companies or any director or chief executive of the Investment Manager or such associated companies may receive commission, brokerage and other charges in relation to the sale or purchase of any investment by the Company.

Subject to restrictions and requirements applicable from time to time as required by the Listing Rules and/or the Investment Management Agreement, the Company may acquire or dispose of securities or other forms of investment from or to the Investment Manager’s associated companies or any director or chief executive of the Investment Manager or such associated companies, with the prior approval of the Board (other than Director(s) who are interested in such acquisition or disposal) or, where the acquisition or disposal involves the higher of either HK\$10 million 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 Shareholder(s) who are interested in such acquisition or disposal).

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The Investment Manager reserves the rights for itself and 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 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 enters into such transactions on its own account or on behalf of any third party by giving a prior written notice to the Board to that effect, provided always that the Investment Manager shall not be required to disclose information about its other clients, which is subject to clients' confidentiality.

The Investment Manager has undertaken that, it will disclose to the Company before entering into any transaction any potential conflict of interest involving the Company of which it is aware or which has been brought to its attention.

The Investment Manager's affiliates may promote, manage, advise or be otherwise involved in other funds or investment companies. The Investment Manager has not undertaken to the Company not to promote, manage, advise or otherwise be involved in any other funds or investment companies so long as it remains as the Investment Manager of the Company. Please refer to the paragraph headed "Potential conflicts of interest of the Investment Manager" under the section headed "Risk Factors".

CUSTODIAN

The Company has appointed Wing Hang Bank, Limited, an independent third party not connected with the Directors, the chief executive or the substantial Shareholders or any of their associates, to act as the custodian to the Company pursuant to the Custodian Agreement. The term of appointment of the Custodian created 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 30 days' notice in writing. Pursuant to the Custodian Agreement, the Custodian is responsible for 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.

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 the terms of any such contract or transaction are fair and competitive (having regard to the terms offered or accepted by it in relation to its other clients) reasonably obtainable having regard to the interests of the Company.

FEES AND EXPENSES

The Company will pay the fees to the Investment Manager and the Custodian, as described below. In addition, the Company will pay certain other costs and expenses incurred in its operation, including taxes, expenses for legal, auditing and consulting 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.

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Investment Management Fee

The Company will pay to the Investment Manager a monthly management fee payable in Hong Kong dollars at 1.5% 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 month over a year of 365 days for a period of three years.

In addition, the Investment Manager is entitled to reimbursement by the Company of its out-of-pocket expenses reasonably incurred in the proper performance of its duties and approved by the Board up to a maximum amount of HK\$250,000 per annum. No further expenses shall be incurred by the Investment Manager as soon as the said maximum amount of HK\$250,000 has been or is likely to be reached unless such expenses are specifically approved by the Board in advance.

Save for the Investment Management fee disclosed, there is no other type of fee payable to the Investment Manager.

Custodian Fee

Pursuant to the Custodian Agreement, the Custodian will receive a monthly base fee of HK\$5,000. In addition, the Custodian will be paid for the provision of securities services at the following rates subject to revision by the Custodian from time to time:

1. HK\$30 for each delivery and withdrawal of securities through CCASS;
2. HK\$10 for each receipt of securities through CCASS;
3. HK\$5 per board lot or odd lot of physical securities deposited with the Custodian, with a minimum charge of HK\$30;
4. HK\$0.15 per board lot or odd lot of securities held by the Custodian calculated by reference to the number of board lots or odd lots of securities in the investment portfolio of the Company and its subsidiaries held by the Custodian as at 1st June and 1st December, with a minimum charge of HK\$150 per half year;
5. HK\$5 per board lot or odd lot of securities withdrawn from CCASS, with a minimum charge of HK\$30;
6. 0.5% on the amount of dividend payable in respect of any dividend collected by the Custodian on behalf of the Company and its subsidiaries, or on the amount collected in respect of any cash offer and other cash entitlements, collected by the Custodian on behalf of the Company and its subsidiaries with a minimum charge of HK\$20;
7. HK\$1 per board lot of warrants, the subscription rights attaching thereto having been exercised to subscribe for shares, with a minimum charge of HK\$200 (the charge is additional to the charge for deposit of the shares set out in (3) above);
8. HK\$100 per claim in respect of any claim for benefit entitlements by the Company or its subsidiaries, with a minimum charge of HK\$100 (irrespective whether such claim is successful or not) (the charge is additional to the charge for deposit of securities and for collection of dividends set out in (3) and (6) above respectively and any charge payable to HKSCC).