

The directors submit their annual report and the audited financial statements for the period from 14th August, 2001 (date of incorporation) to 31st December, 2002 (the "Period").

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. During the Period, the Group is engaged principally in the investments in listed securities in Hong Kong.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the Period ended 31st December, 2002 are set out in the consolidated income statement on page 18.

The directors do not recommend the payment of a dividend.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the Period in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

## **CAPITAL STRUCTURE AND SHARE CAPITAL**

Details of the movements during the Period in the share capital of the Company are set out in note 16 to the financial statements.

## **RESERVES**

Movements in the reserves of the Group and the Company during the Period are set out in note 17 to the financial statements.

## **PURCHASE, SALE AND REDEMPTION OF SECURITIES**

During the Period neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **DIRECTORS**

The directors of the Company during the Period and up to the date of this report were:

Mr. Chung Yuk Lun, Chairman	(appointed on 25th April, 2002)
Mr. GREER Thomas Francis Jr.	(appointed on 4th January, 2002)
Mr. WONG Man Hung, Patrick	(appointed on 16th October, 2002)
Mr. CHUANG Yueheng, Henry	(appointed on 4th January, 2002 and resigned on 16th October, 2002)
Mr. CHU Kam Ming, Jeff	(appointed on 4th January, 2002 and resigned on 30th April, 2002)
Mr. CHAN Sze Hung <sup>#</sup>	(appointed on 25th January, 2002)
Dr. LIN Michael <sup>#</sup>	(appointed on 29th January, 2002)
Prof. CHIANG Chiu Ping, Raymond <sup>#</sup>	(appointed on 17th January, 2002 and passed away on 12th August, 2002)

<sup>#</sup> Independent non-executive directors

## **DIRECTORS** (continued)

In accordance with Article 88 of the Company's Articles of Association, Mr. GREER Thomas Francis Jr. retires by rotation and, being eligible, offers himself for re-election. All executive directors have entered into a service contract with the Company for a fixed term of three years commencing on the date of appointment. All independent non-executive directors have been appointed for a term of two years pursuant to the resolution passed on 7th February, 2002.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Except for the "Connected Transactions" disclosed below, no contracts of significance in relation to the Company's business to which the Company or 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 Period or at any time during the Period.

## **DIRECTORS' INTERESTS IN SHARES AND SHARE OPTION**

### **Shares**

At 31st December, 2002, the interests of the directors and their associates in the equity of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and to the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

<b>Director</b>	<b>Number of ordinary shares Personal interests</b>
Mr. WONG Man Hung, Patrick	8,000,000

Saved as disclosed above, none of the other directors or their associates had any personal, family, corporate or other interests in the equity of the Company or its subsidiaries as at 31st December, 2002.

### **Share option**

Particulars of the Company's share option scheme are set out in note 19 to the financial statements. As at 31st December, 2002 none of the directors or their associates had any interests in the share option of the Company and its subsidiaries or associated corporations, within the meaning of the SDI Ordinance. In addition, none of the directors, or their spouses or children under the age of 18 had any right to subscribe for the shares of the Company or had exercised any such right during the Period.

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTION (continued)

### Share options (continued)

The following table discloses movements in the Company's share options during the Period:

Category	Outstanding at 14th August, 2001	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 31st December, 2002	Date of Grant	Exercise price per share	Exercise period
Employees	–	20,000,000	20,000,000	–	–	–	29th April, 2002	HK\$0.53	10 years from 7th February, 2002

The closing price of the Company's shares immediately before 29th April, 2002, the date of grant of the share options, was HK\$0.53.

The closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$0.49.

The fair value of the share options granted in the Period has been disclosed in the interim report dated 13th September 2002.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Period was the Company or 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, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, the following shareholders had an interest of 10% or more in the share capital of the Company:

Name	Number of Shares	%
Hennabun Management Inc.	290,000,000	28.43
Sunfull Resources Limited	158,880,000	15.58

The Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

## **PLEDGE OF ASSETS**

Details of pledge of assets are set out in Note 20 to the financial statements.

## **RETIREMENT BENEFITS SCHEME**

Details of the retirement benefits scheme are set out in Note 21 to the financial statements.

## **CONNECTED TRANSACTIONS**

The following connected transactions occurred during the Period.

### **1. Tenancy Agreement**

On 11th February, 2002 Pacific Kingdom Investments Limited (the “Landlord”) and the Company entered into tenancy agreement pursuant to which the Company agreed to lease from the Landlord a portion of office premises with gross floor area of approximately 2,500 sq.ft. located at 31 Floor, China United Centre, 28 Marble Road, North Point, Hong Kong as office of the Company for a term of two years from 1st January, 2002 (with an option to renew at the prevailing open market rent at the time of commencement of the new term for a further term of 2 years) at a monthly rent of HK\$28,155. During the Period, the Group has paid to the Landlord HK\$337,860.

The Landlord is an indirectly wholly-owned subsidiary of China United International Holdings Limited, (“CUIHL”) which is listed on the Stock Exchange, the controlling shareholder interested in 93.04% of the entire issued share capital of Hennabun Management Inc. (“Hennabun”), which is a substantial shareholder of the Company. Besides, Radford Developments Limited is the substantial shareholder of CUIHL holding about 27.41% of its issued share capital and is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, an ex-director resigned during the Period, currently named as the beneficiary.

### **2. Custodian Agreement**

On 11th February, 2002 Standard Chartered Bank (the “Custodian”) entered into the custodian agreement with the Company pursuant to which the Custodian agreed to provide services to the Company including the safe custody and physical settlement of the securities in the investment portfolio of the Company and its subsidiaries, and the collection of dividends and other entitlements in respect of such securities. The custodian agreement will continue in force until terminated by either the Company or the Custodian giving to the other not less than 90 days’ notice in writing expiring at any time. During the Period, the Group has paid to the Custodian HK\$30,552.

The Custodian is regarded as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the custodian agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

## **CONNECTED TRANSACTIONS** *(continued)*

### **3. Administrative Services Agreement**

On 11th February, 2002, an administrative services agreement was made between the Company and CU Investment (Holdings) Limited (the "Service Limited") pursuant to which the Service Limited agreed to provide general administrative services including accounting, secretarial, personnel and administrative services to the Company for a term from 28th February, 2002 to and including 31st December, 2004 at an initial monthly fee of HK\$140,200, subject to adjustment in the event there is an increase in personnel and/or administrative services required by the Company and its subsidiaries. During the Period, the Group has paid the Service Limited HK\$1,402,000.

The Service Limited is the wholly owned subsidiary of Hennabun and the issued share capital of Hennabun is beneficially owned as to 93.04% by CUIHL. Radford Developments Limited is the substantial shareholder of CUIHL holding about 27.41% of its issued share capital and is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, an ex-director resigned during the Period, currently named as the beneficiary.

### **4. Brokerage Services and Margin Financing Facilities Arrangement**

Chung Nam Securities Limited ("CNSL") is engaged in the business of securities dealing and Chung Nam Commodities Limited ("CNCL") is engaged in the business of commodities trading. The Company and its subsidiaries may utilize the services of each of CNSL and CNCL through the opening of margin trading accounts with CNSL and trading accounts with CNCL to deal in securities of listed companies and commodity trading contracts in accordance with the investment objective and policies of the Company; and may enter into margin financing facilities arrangement with CNSL to finance investments in accordance with the investment objective and policies of the Company. During the Period, the Group has paid CNSL net margin financing interest and brokerage fee of approximately HK\$136,000 and HK\$605,000 respectively. No trading account was maintained with CNCL yet during the Period.

CNSL and CNCL are the wholly owned subsidiaries of Hennabun and the issued share capital of Hennabun is beneficially owned as to 93.04% by CUIHL. Radford Developments Limited is the substantial shareholder of CUIHL holding about 27.41% of its issued share capital and is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, an ex-director resigned during the Period, currently named as the beneficiary.

### **5. Investment Management Agreements**

Pursuant to the investment management agreement dated 11th February, 2002 between the Company and Asia Investment Management Limited ("AIM"), AIM has agreed to provide the Group with investment management services from 28th February, 2002 for a three-year period for a monthly management fee payable in advance at 2.5% per annum of the audited net asset value of the Group 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. AIM is also entitled to receive a performance management fee equivalent to 10% of the amount by which the audited net asset value at the end of each financial year exceeds 115% of such value as at the immediately preceding financial year end date.

## **CONNECTED TRANSACTIONS** *(continued)*

### **5. Investment Management Agreements** *(continued)*

On 20th March, 2002 the Company, AIM and Sinox Fund Management Limited (“Sinox”) entered into the second investment management agreement for appointing Sinox as an additional investment manager of the Group for a term of three years commencing on 30th April, 2002. The terms and conditions of the second investment management agreement are similar to that of the investment management agreement with AIM. On 30th April, 2002 AIM terminated the investment management agreement with the Company.

On 19th August, 2002 the Company entered into the third investment management agreement with Sinox and CU Investment Management Limited (“CUIM”) for appointing CUIM as the research consultant of the Group and for retaining Sinox as the investment manager of the Group for a term of three years commencing on 28th September 2002. Upon the third investment management agreement coming into effect, the second investment management agreement is terminated. An aggregate investment management and research consultation fees of 2.5% per annum of the audited net asset value as at the day immediately preceding the valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days will be payable monthly in advance to Sinox and CUIM; and an aggregate performance management and research consultation fees of 10% of the amount by which the audited net asset value at the end of each financial year exceeds 115% of such value as at the immediately preceding financial year end date will be payable to Sinox and CUIM. The investment management and research consultation fees and performance management and research consultation fees to be paid by the Company shall be split equally between Sinox and CUIM.

The aggregate of investment management fee and/or research consultation fees paid/payable to AIM, Sinox and CUIM for the Period amounted to HK\$725,097, 2,102,588 and HK\$445,740 respectively.

AIM, Sinox and CUIM are regarded as connected persons of the Company for the purpose of the Listing Rules. Accordingly, the investment management agreements constitute connected transactions of the Company.

### **6. Grant of Waiver**

The Company has applied to and been granted by the Stock Exchange for a waiver from strict compliance with the disclosure and shareholders’ approval requirements under Chapter 14 of the Listing Rules in respect of the transactions contemplated under the administrative services agreement, the brokerage services and margin financing facilities arrangement, and the investment management agreements for the initial term of three years. The Stock Exchange has indicated that such a waiver has been granted for a three-year period based on the conditions which have been disclosed in the prospectus of the Company dated 15th February, 2002 and the circulars of the Company dated 12th April, 2002 and 12th September, 2002 respectively.

## **CONNECTED TRANSACTIONS** *(continued)*

### **7. Confirmation from Independent Non-Executive Directors**

The Company's Independent non-executive directors have reviewed the transactions contemplated under the investment management agreements dated 11th February, 2002, 20th March, 2002 and 19th August, 2002, the administrative services agreement, the brokerage services and the margin financing facilities arrangement respectively and confirm that:

- (a) the transactions contemplated under the investment management agreements, administrative services agreement, the brokerage services and the margin financing facilities arrangement have been entered into by the Company in the ordinary and usual course of its business and are conducted in accordance with the terms of the investment management agreements, administrative services agreement or in respect of the brokerage services and the margin financing facilities arrangement on terms no less favourable than those offered by each of the connected companies to independent third parties;
- (b) the transactions contemplated under the investment management agreements have been entered into on normal commercial terms and on arm's length basis;
- (c) the transactions contemplated under the administrative services agreement, the brokerage services and the margin financing facilities arrangement have been entered into on arm's length basis and normal or better commercial terms;
- (d) the transactions contemplated under the investment management agreements, administrative services agreement, the brokerage services and the margin financing facilities arrangement have been entered into on terms that are fair and reasonable so far as the shareholders of the Company and the Company are concerned;
- (e) the value of the annual investment management fee, research consultation fees and performance management fee payable to both the investment managers and the research consultant do not exceed 2.5% of the audited net asset value and 10% of the amount by which the audited net asset value at the end of each year exceeds 115% of such value as at the immediately preceding financial year end date for the relevant year respectively; and
- (f) the annual aggregate value of the general administration services fee, the brokerage fee and the margin facilities interest do not exceed the higher of HK\$20 million or 10% of the net asset value in each financial year for the relevant period.

### **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, during the Period, 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.

### **AUDIT COMMITTEE**

The audit committee comprises three members – Chan Sze Hung, Chiang Chiu Ping, Raymond (deceased) and Lin Michael, all of whom are independent non-executive directors.

During the Period, the audit committee held three meetings and performed the following duties:

Reviewed and commented on the Company's draft interim financial report and the draft circular in respect of the appointment of Sinox as investment manager and CUIM as research consultant dated 12th April, 2002 and 12th September, 2002 respectively.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, although there are no restrictions against such rights under the laws in the Cayman Islands.

### **FINANCIAL SUMMARY**

No financial summary is provided as it is the first annual report of the Company since incorporation.

### **AUDITORS**

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board  
**CHUNG Yuk Lun**  
*Chairman*

Hong Kong, 9th April, 2003