

REPORT OF THE DIRECTORS

The directors present their first report and the audited financial statements of the Company for the period from 14 May 2002 (date of incorporation) to 31 December 2002.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investing in listed and unlisted companies established and/or doing business in the Asia Pacific Region, mainly the People's Republic of China, excluding Hong Kong and Macau (the "PRC"), Hong Kong and other Asian countries.

RESULTS

The Company's loss for the period from 14 May 2002 (date of incorporation) to 31 December 2002 and the state of affairs of the Company as at that date are set out in the financial statements on pages 19–36.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Company for the period from 14 May 2002 (date of incorporation) to 31 December 2002, as extracted from the audited financial statements, are set out below:

RESULTS

	Period from 14 May 2002 (date of incorporation) to 31 December 2002 HK\$
TURNOVER	—
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(4,545,620)
ASSETS AND LIABILITIES	
	At 31 December 2002 HK\$
TOTAL ASSETS	96,123,782
TOTAL LIABILITIES	(4,850,653)
	91,273,129

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SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital for the period from 14 May 2002 (date of incorporation) to 31 December 2002, together with the reasons therefor, and details of the Company's share option scheme, are set out in notes 12 and 13 to the financial statements, respectively.

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 was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's initial public offering and the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002, the Company has not purchased, redeemed or sold any of the Company's listed securities during the period.

RESERVES

Details of movements in the reserves of the Company during the period are set out in note 14 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had distributable reserves of HK\$80,731,129. Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of HK\$85,276,749 as at 31 December 2002, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

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DIRECTORS

The directors of the Company during the period were as follows:

Executive directors

Mr. Chang Chu Fai, Johnson Francis (appointed on 16 May 2002)
Mr. Lim Siang Kai (appointed on 16 May 2002)
Mr. See Lee Seng, Reason (appointed on 16 May 2002)

Independent non-executive directors

Mr. Yue Man Yiu, Matthew (appointed on 4 June 2002)
Mr. Zheng Weihe (appointed on 4 June 2002)
Mr. Au Yeung Shiu Kau, Peter (appointed on 4 June 2002)

In accordance with Article 88(1) of the Company's Articles of Association, Mr. Chang Chu Fai, Johnson Francis will retire by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting. The independent non-executive directors are currently appointed for a term of two years commencing from 4 June 2002.

Subsequent to the balance sheet date, on 31 January 2003, Mr. Au Yeung Shiu Kau, Peter tendered his resignation as an independent non-executive director of the Company which took effect on the same date.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and the senior management of the Company are set out on pages 9 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of two years commencing from 1 November 2002. During their first year of service, the service contracts are able to be terminated by either party giving not less than six months' notice in writing to the other party or upon payment by the terminating party to the other of an amount equal to six months' salary in lieu of such notice. Thereafter, the service contracts are able to be terminated by either party giving not less than three months' notice in writing to the other party or upon payment by the terminating party to the other party of an amount equal to three months' salary in lieu of such notice.

Save as disclosed above, 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 of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN CONTRACTS

Other than the related party and connected transactions which are disclosed under the heading "RELATED PARTY AND CONNECTED TRANSACTIONS" below, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company was a party during the period.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which have been notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 of the SDI Ordinance or Part 1 of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to Section 29 of the SDI Ordinance to be recorded in the register maintained by the Company referred to therein, were as follows:

Ordinary shares of the Company

Name of director	<i>Notes</i>	Nature of interest	Number of ordinary shares held
Mr. Chang Chu Fai, Johnson Francis	1	Corporate	1,355,000
Mr. Lim Siang Kai	2	Corporate	1,355,000
Mr. See Lee Seng, Reason	3	Corporate	1,355,000

Notes:

1. These shares are held through Megabase Developments Limited ("Megabase"), a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of Megabase is beneficially owned by Mr. Chang Chu Fai, Johnson Francis.
2. These shares are held through Wise Guard Enterprises Limited ("Wise Guard"), a company incorporated in the BVI. The entire issued share capital of Wise Guard is beneficially owned by Mr. Lim Siang Kai.
3. These shares are held through Asset Home Group Limited ("Asset Home"), a company incorporated in the BVI. The entire issued share capital of Asset Home is beneficially owned by Mr. See Lee Seng, Reason.

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

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS IN SHARES" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the interests of every person, other than the directors or chief executives of the Company, in the equity securities of the Company under the SDI Ordinance and the amount of such interests, were as follows:

<u>Name of shareholder</u>	<u>Number of shares</u>	<u>Percentage of shareholding</u>
Ms. Zhang Yunxia (Note)	22,760,000	21.59
Profitone Company Limited (Note)	22,760,000	21.59

Note: These shares are held through Profitone Company Limited ("Profitone"), a company incorporated in the BVI. The entire issued share capital of Profitone is beneficially owned by Ms. Zhang Yunxia.

RELATED PARTY AND CONNECTED TRANSACTIONS

- (i) Pursuant to the Investment Management Agreement dated 7 October 2002 entered into between the Company and Golden Honour Assets Management Limited (the "Investment Manager"), the Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a three-year period commencing from 28 October 2002, the date of the commencement of the trading of the Company's shares on the Stock Exchange. The Investment Management Agreement will 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 any of the relevant successive periods.

Under the Investment Management Agreement, the Investment Manager is entitled to a monthly management fee equivalent to 2.5% per annum of the net assets value of the Company as at the last dealing day on the Stock Exchange in each calendar month (or such other dealing day as considered appropriate by the board of directors for the purpose of calculating the net asset value of the Company), 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 an annual incentive fee equivalent to 15% of the surplus in the net assets value of the Company over a financial year or period.

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RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

For the period ended 31 December 2002, the investment management fee paid/payable to the Investment Manager for the services rendered amounted to HK\$419,342.

Mr. Chang Chu Fai, Johnson Francis and Mr. Lim Siang Kai, executive directors of the Company, each have a 15% equity interest in the Investment Manager. Mr. See Lee Seng, Reason, an executive director of the Company, has a 35% equity interest in the Investment Manager and is one of the directors of the Investment Manager.

In accordance with the requirements of the waiver granted by the Stock Exchange on 28 October 2002, the independent non-executive directors of the Company confirm that:

- (a) the above transaction has been entered into in the ordinary and usual course of the business of the Company;
 - (b) the above transaction has been entered into on normal commercial terms and on an arm's length basis;
 - (c) the above transaction has been entered into on terms that are fair and reasonable so far as the shareholders of the Company and the Company are concerned; and
 - (d) the aggregate amount of the investment management fee paid/payable to the Investment Manager did not exceed 5% of the net tangible assets as disclosed in the audited financial statements of the Company for the period from 14 May 2002 (date of incorporation) to 31 December 2002.
- (ii) Pursuant to the Sub-tenancy Agreement dated 30 August 2002 entered into between the Company and Ceres Capital Limited ("Ceres"), the Company agreed to sublet its office premises from Ceres, which is owned as to approximately 33% by Mr. Chang Chu Fai, Johnson Francis, for a period commencing from 1 November 2002 to 2 July 2003 (both dates inclusive) at HK\$15,000 per month.

The Investment Management Agreement and the Sub-tenancy Agreement constitute connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and related party transactions under the applicable accounting standard issued by the Hong Kong Society of Accountants. Details of the related party and connected transactions are disclosed in note 17 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules since the listing of the Company's shares on the Stock Exchange on 28 October 2002.

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AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 7 October 2002 in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Company’s financial reporting process and internal controls. The Committee comprises the two independent non-executive directors of the Company, Mr. Yue Man Yiu, Matthew and Mr. Zheng Weihe.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chang Chu Fai, Johnson Francis

Executive Director

Hong Kong, 23 April 2003