

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and the Group for the period from 26 April 2002 (date of incorporation) to 31 March 2003.

LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED

The Company was established in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the placing and new issue of the Company's shares are set out in the prospectus dated 10 September 2002. The shares of the Company have been listed on the Stock Exchange with effect from 19 September 2002.

PRINCIPAL ACTIVITIES

The Company commenced its operations after the listing of its shares on the Stock Exchange on 19 September 2002 and is principally engaged in investing in listed and unlisted companies in the People's Republic of China, Hong Kong and Taiwan.

SEGMENT INFORMATION

No segment information is presented as all of the turnover, contribution to operating results, assets and liabilities of the Group are attributable to investment activities which are carried out or originated principally in Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's entire turnover is derived from the Group's investments in trading securities and the disclosure of information regarding customers and suppliers would not be meaningful.

RESULTS AND APPROPRIATIONS

The results of the Group for the period ended 31 March 2003 are set out in the consolidated income statement on page 23.

An interim dividend of HK\$0.05 per share amounting to HK\$4,010,000 was paid to the shareholders on 21 January 2003.

The Directors do not recommend payment of a final dividend.

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SHARE CAPITAL

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

RESERVES

Details of the movements in reserves of the Group during the period are set out in the consolidated statement of changes in equity on page 26 of this report and other details of the reserves of the Group and the Company are set out in note 18 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2003 are set out in note 18 to the financial statements.

DIRECTORS

The Directors of the Company during the period and to the date of this report were:

Executive Directors:

Mr. LIU Chen-chun	(appointed on 24 May 2002)
Mr. SUEN Hoi Wan, Steven	(appointed on 15 July 2002)
Mr. YUEN Man Yiu	(appointed on 24 May 2002 and resigned on 12 April 2003)
Mr. LIU Yong	(appointed on 12 April 2003)

Non-Executive Directors:

Mr. HSIEH Chin-chen	(appointed on 24 May 2002)
Mr. LEUNG Koon Sing	(appointed on 24 May 2002)

Independent Non-Executive Directors:

Mr. LEE Hsien-chou	(appointed on 24 May 2002)
Mr. GAO Hong Bing	(appointed on 24 May 2002)

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In accordance with the Article 88 of the Company's Articles of Association, Mr. LEUNG Koon Sing shall retire by rotation from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. LIU Chen-chun, Mr. SUEN Hoi Wan, Steven and Mr. YUEN Man Yiu had a service contract with the Company for an initial term of three years commencing on 1 September 2002 unless terminated by not less than three months' written notice served by either party or payment in lieu of such notice to the other party.

Mr. Yuen's service contract with the Company had been terminated on 12 April 2003 upon his resignation as Director with mutual agreement for shorter notice of termination.

Mr. Liu's original service contract with the Company had been cancelled on 18 October 2002 and was superseded by a new service contract for an initial term of three years commencing on 19 October 2002 unless terminated by not less than three months' written notice served by either party or payment in lieu of such notice to the other party.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in the paragraph headed "Connected Transactions" in this report and in note 20 to the financial statements, no other contracts of significance in relation to the Company's business to which the Company or its subsidiary 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' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 March 2003, share options were granted to Directors under the Share Option Schemes. Particulars of the Company's share option schemes adopted on 31 August 2002 are set out in the paragraph headed "Share Options" in this report.

Save as disclosed above, none of the Directors and Chief Executives had any interests in equity or debt securities of the Company or of any of its associated corporations which were required to be notified to the Company and the Stock Exchange as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

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DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Particulars of the Company's share option schemes adopted on 31 August 2002 are set out in the paragraph headed "Share Options" in this report.

At no time during the period was the Company or its subsidiary a party to any arrangements to enable the Company's Directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of the Company or any other body corporate.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the period ended 31 March 2003, which also constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in note 20 to the financial statements.

(a) Investment Management Agreement

Pursuant to the Investment Management Agreement date 31 August 2002, the Company had appointed Friedmann Pacific Investment Consultants Limited, a company which is owned by Mr. POON Ho Man and Mr. LEUNG Koon Sing a Non-Executive Director as to 90% to 10% respectively, as the Investment Manager to provide investment management services and general administrative services to the Company. In return, Friedmann Pacific Investment Consultants Limited was entitled to a monthly investment management fee at a rate of 2% per annum of the Net Asset Value as at the immediately preceding Valuation Date as defined in the Investment Management Agreement. The actual fee will, however, be calculated quarterly based on the Net Asset Value as at each Valuation Date. Any overpayment or underpayment relating to the estimated investment management fee will be deducted from or added to (as the case may be) the amount of the fee payable to the Investment Manager on the next succeeding Payment Date.

In accordance with the Investment Management Agreement dated 31 August 2002, the Investment Manager will also be entitled to receive from the Company an annual incentive fee payable in Hong Kong dollars equal to 10% of the Surplus Net Asset Value as determined in accordance with the provision of the Investment Management Agreement. The annual incentive fee shall be payable annually in arrears within 10 Business Days after the annual accounts of the Company have been approved by the Shareholders.

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The Investment Manager of the Company is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the Investment Management Agreement constitutes a connected transaction of the Company.

During the period, the Company paid an investment management fee of HK\$450,130 and nil incentive fee to Friedmann Pacific Investment Consultants Limited.

(b) Custodian Agreement

On 9 September 2002, Standard Chartered Bank 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 subsidiary, 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 60 days' notice in writing expiring at any time. During the period, the Company had paid to the Custodian, Standard Chartered Bank amounting to HK\$21,133.

The custodian agreement between Standard Chartered Bank and the Company had been terminated on 23 December 2002. The Company had appointed ABN-AMRO Bank as the Custodian. During the period, no custodian fee had paid to ABN-AMRO Bank.

The Custodian is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the custodian agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

The custodian fee is expected to fall below the de-minimis thresholds under Rule 14.24(5) of the Listing Rules, and would be exempted from the reporting, announcement and / or shareholders' approval requirements under the Listing Rules.

(c) Application For Waiver

The Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 14.25(1) of the Listing Rules and the waiver has been granted by the Stock Exchange. Details of such waiver are set out in the prospectus.

The Independent Non-Executive Directors of the Company have reviewed the connected transactions as set out in the above and confirmed that the transactions contemplated under the Investment Management Agreement have been entered into by the Company:

- (i) in its ordinary and usual course of business;

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- (ii) on normal commercial terms and on arm's length basis;
- (iii) on terms that are fair and reasonable so far as the Shareholders and the Company are concerned; and
- (iv) the value of the annual investment management fee and incentive fee payable to the investment manager did not exceed the relevant caps of 2% of the Net Asset Value and 10% of the Surplus Net Asset Value as at the last Valuation Date in a financial year less the Net Asset Value as at the last Valuation Date of the preceding financial year respectively.

MANAGEMENT CONTRACTS

Save as disclosed in the paragraph headed "Connected Transactions" in this report and note 20 to the financial statements, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period.

RETIREMENT BENEFITS SCHEME

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

SHARE OPTIONS

The Company's share option scheme (the "Scheme"), the Pre-IPO and Post-IPO share option schemes were adopted by the sole shareholder of the Company by way of written ordinary resolutions passed on 31 August 2002 for the purposes of providing incentives or rewards to directors and eligible employees for their contribution to the Group. The subscription price for the Shares under the Pre-IPO Share Option Scheme is HK\$0.6 per share. The grantees are permitted to exercise options granted under the Pre-IPO Share Option Scheme during the period commencing from the expiry of six months from the date of listing of Shares on the Stock Exchange and up to 19 September 2004.

No further options can be granted under the Pre-IPO Share Option Scheme after the date of listing of the Shares on the Stock Exchange. The Pre-IPO Share Option Scheme is valid for a period of 10 years commencing on 31 August 2002 save as early terminated in accordance with the scheme.

The maximum number of shares in respect of which options may be granted under the Post-IPO Share Option Scheme shall not exceed 8,020,000 shares, being 10% (the "Scheme Mandate Limit") of the issued share capital of the Company as at the date of an adoption of the Scheme. The Scheme Mandate Limit may be renewed by the approval of shareholders proposed that the number of shares under outstanding options shall not exceed 30% of the total issued share capital in issue from time to time.

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No eligible employee shall be granted options in any 12-month period up to the date of grant which would result in the total number of shares issued or to be issued upon exercise of the options granted (including both exercised and outstanding options) exceeding 1% of the aggregate number of shares for the time being in issue.

Options had been granted to the Executive and Non-Executive Directors under the Pre-IPO Share Option Scheme for a consideration HK\$1 from each of them and details are as follows:

Name of grantee	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK\$	Number of Share Options granted during the period and outstanding at 31 March 2003
Mr. LIU Chen-chun	31.08.02	19/03/03-19/09/04	0.6	800,000
Mr. SUEN Hoi Wan, Steven	31.08.02	19/03/03-19/09/04	0.6	800,000
Mr. YUEN Man Yiu	31.08.02	19/03/03-19/09/04	0.6	800,000
Mr. HSIEH Chin-chen	31.08.02	19/03/03-19/09/04	0.6	400,000
Mr. LEUNG Koon Sing	31.08.02	19/03/03-19/09/04	0.6	400,000
				<u>3,200,000</u>

At the date before the options were granted, 30 August 2002, the closing price was HK\$0.01 and at the date of options were granted, 31 August 2002, the closing price was HK\$0.01.

No options have been exercised, cancelled or lapsed during the period from the date of grant to 31 March 2003.

At 31 March 2003, the number of shares in respect of which options had been granted under the share option scheme was 3,200,000 representing 3.99% of the shares of the Company in issue at that date.

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The options granted to Directors of the Company are not recognised in the consolidated financial statements until they are exercised. The Directors do not consider it appropriate to disclose a theoretical value of the share options granted. In the absence of a readily market value of the share options on the ordinary shares of the Company, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, details of the interests representing 10% or more of the issued share capital of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance are as follows:

Name of shareholder	Number of shares	Percentage of shareholding
Blaze Holdings Limited	14,000,000	Approximately 17.5%

Note: Blaze Holdings Limited is a BVI company wholly owned by Ms. Cheng Sui-l. Each of Blaze Holdings Limited and Ms. Cheng Sui-l and associates of any of them are independent from and not connected with the Company and the Investment Manager of any of their respective associates except for the shareholdings of Blaze Holdings Limited in the Company.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company had an interest in a business which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not purchase, sell or redeem any of its own listed securities following the listing of its shares on 19 September 2002 and to the date of this report.

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 since the date of listing of the Company on 19 September 2002.

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AUDIT COMMITTEE

The audit committee, which comprises of two Independent Non-Executive Directors of the Company, has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters.

The audited committee of the Company has reviewed the audited financial statements for the period from 26 April 2002 (date of incorporation) to 31 March 2003.

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

Details of the financial summary in relation to the Group's business are set out in page 52.

AUDITORS

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

By Order of the Board

LIU Chen-chun

Executive Director

Hong Kong, 23 July 2003