

The directors submit their annual report and the audited financial statements for the year ended 31st December 2003 (the “Year”).

#### **PRINCIPAL ACTIVITIES**

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

#### **RESULTS AND APPROPRIATIONS**

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

The directors do not recommend the payment of a dividend.

#### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the Year in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

#### **CAPITAL STRUCTURE AND SHARE CAPITAL**

Details of the movements during the Year in the share capital of the Company are set out in note 17 to the financial statements.

#### **RESERVES**

Movements in the reserves of the Group and the Company during the Year are set out in note 18 to the financial statements.

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

During the Year the Company has repurchased an aggregate of 8,440,000 shares through the Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 7th November 2003, 14th November 2003 and 26th November 2003 for an average price of approximately HK\$0.16 per share. Details of the repurchase are set out in note 17 to the financial statements. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s own securities.

**DIRECTORS**

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

- Mr. CHUNG Yuk Lun, Chairman
- Mr. GREER Thomas Francis Jr.
- Mdm. MA Chi Wing (appointed on 14th November 2003)
- Mr. NAKAJIMA Toshiharu (appointed on 25th February 2004)
- Mr. CHAN Sze Hung#
- Dr. LIN Michael#
- Mr. SHIMAZAKI Koji# (appointed on 25th February 2004)
- Mr. WONG Man Hung, Patrick (resigned on 15th September 2003)
- Mr. RATTIWAT Samson (appointed on 10th September 2003 and resigned on 25th February 2004)

# Independent non-executive directors

According to article 88(1) of the Company’s articles of association, Mr. Chan Sze Hung and Dr. Lin Michael appointed on 25th February 2002 and 29th February 2002 respectively, who are subject to retirement by rotation, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

**SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS**

As at 31st December 2003, the following persons (other than the directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (“SFO”):

Name of shareholder	Number of ordinary shares	Percentage
Hennabun Management Inc. (Note)	290,000,000	28.67%

Note: The entire issued share capital of Hennabun Management Inc. is beneficially owned as to 47.60% by China United International Holdings Limited, 16.17% by Sinolink Worldwide Holdings Limited, 12.94% by Golden Resources Development International Limited, 10.35% by Beauforte Investors Corporation Limited, 6.15% by Heritage International Holdings Limited, 3.235% by Hansom Eastern (Holdings) Limited, 3.235% by China Sci-Tech Holdings Limited and 0.32% by Hong Kong Pharmaceutical Holdings Limited, all of which are companies listed on the Stock Exchange.

Save as disclosed above, the Company had not been notified of any other person (other than the directors or chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December 2003.

**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 Year or at any time during the Year.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS**

As at 31st December 2003, none of the directors, chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

**ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed in the post balance sheet event disclosures in note 23 to the financial statements, at no time during the Year 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. The Company did not grant any right to subscribe for the shares in the Company to any directors or chief executive of the Company or their respective spouse or children under the age of 18 during the Year.

**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 Year.

**1. Tenancy Agreement**

On 11th February 2002 Pacific Kingdom Investments Limited (the "Landlord") and the Company entered into tenancy agreement to lease an office premises with gross floor area of approximately 2,500 sq.ft. located at Office C, 31st Floor, China United Centre, 28 Marble Road, North Point, Hong Kong as office of the Group for a term of two years from 1st January 2002 at a monthly rent of HK\$28,155.

**CONNECTED TRANSACTIONS** *(continued)***1. Tenancy Agreement** *(continued)*

The Landlord was an indirectly wholly-owned subsidiary of China United International Holdings Limited, (“CUIHL”) which is listed on the Stock Exchange, the controlling shareholder interested in 47.60% of the entire issued share capital of Hennabun Management Inc. (“Hennabun”), which is a substantial shareholder of the Company and constitutes a connected transaction under the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”). CUIHL sold the Landlord during the Year and the Group has paid to the Landlord HK\$281,550 (2002: HK\$337,860) from 1st January 2003 up to the date of disposal of the Landlord by CUIHL.

**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 Year, the Group has paid to the Custodian HK\$5,746 (2002: 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.

**3. Administrative Services Agreement**

On 26th June 2003, the Company entered into a termination agreement (“Termination Agreement”) with CU Investment (Holdings) Limited (“the Service Limited”) to terminate the administrative services agreement dated 11th February 2002 (“Administrative Services Agreement”) with effect from 1st July 2003. Service Limited is a wholly-owned subsidiary of Hennabun which is the substantial shareholder of the Company, and constitutes a connected transaction for the Company under the Listing Rules up to the date of Termination Agreement.

The board of directors (including independent non-executive directors) of the Company (“Board”) is of the view that the Company can reduce the cost of the general administrative services by approximately HK\$90,000 per month by reallocation of the jobs to its own staff. During the Year, the Group has paid the Service Limited HK\$841,200 (2002: HK\$1,402,000).

**CONNECTED TRANSACTIONS** *(continued)***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 Year, the Group has paid CNSL net margin financing interest and brokerage fee of approximately HK\$123,000 and HK\$230,000 respectively (2002: HK\$136,000 and HK\$605,000). No trading account was maintained with CNCL yet during the Year.

CNSL and CNCL are the wholly owned subsidiaries of Hennabun and the issued share capital of Hennabun is beneficially owned as to 47.60% by CUIHL.

**5. Investment Management Agreements**

On 3rd November 2003 the Company has terminated the investment management agreement with Sinox Fund Management Limited (“Sinox”) and CU Investment Management Limited (“CUIM”). Sinox and CUIM were the investment manager and research consultant respectively of the Company since 2002. CUIM has been appointed as the investment manager of the Company for a term of three years commencing from 3rd November 2003 to 2nd November 2006. Upon the investment management agreement dated 3rd November 2003 coming into effect, aggregate investment management of 1% per annum of the 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 CUIM.

The aggregate of investment management fee and/or research consultation fees paid/payable to Sinox and CUIM for the Year amounted to HK\$818,784 and HK\$1,571,916 (2002: HK\$2,102,588 and HK\$445,740) respectively.

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.

**CONNECTED TRANSACTIONS** *(continued)***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.

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

The Company's Independent non-executive directors have reviewed the transactions pursuant to the investment management agreements dated 19th August 2002 and 3rd November 2003, the administrative services agreement dated 11th February 2002, the brokerage services and the margin financing facilities arrangement respectively and confirm that:

- (a) the transactions pursuant to 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 pursuant to the investment management agreements have been entered into on normal commercial terms and on arm's length basis;
- (c) the transactions pursuant to 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 pursuant to 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;

**CONNECTED TRANSACTIONS** *(continued)***7. Confirmation from Independent Non-Executive Directors** *(continued)*

- (e) the value of the annual (pro-rata) investment management fee and research consultation fees payable to both the investment manager and the research consultant do not exceed 2.5% per annum of the net asset value of the Company (calculated on a pro-rata basis up to the date of termination of the investment management agreement on 2nd November 2003) and none of the performance management fee shall be paid or payable to the investment manager and the research consultant; 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.

**CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, during the Year, 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, currently comprising three independent non-executive directors, has reviewed with management the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters of the Company.

During the Year, the audit committee, comprising two independent non-executive directors held three meetings and performed the following duties:

Reviewed and commented on the Company's unaudited interim financial statements and interim report and the draft circulars in respect of placing of new shares dated 30th October 2003 and 1st December 2003 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.

**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, 17th March 2004