

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries (the "Group") are investment holding. During the year, the Group has been engaged principally in the investments in listed and unlisted companies.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 2nd May 2003, the Company has adopted 合一投資控股有限公司 as its Chinese name.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 18.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in share capital of the Group and the Company are set out in note 15 to the accounts.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 16 to the accounts.

BANK OVERDRAFTS

Particulars of bank overdrafts of the Group and Company are set out in note 14 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 10 to the accounts.

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DIRECTORS

Ms. AU Shuk Yee, Sue

Dr. PANG Shuen Wai, Nichols

Mr. QI Qing

(appointed on 27th January 2004)

Mr. WONG Man Ho, William

(resigned on 4th February 2004)

Mr. NGAN Man Kit

(resigned on 15th July 2003)

Mr. LAM Ping Cheung[#]

Mr. WONG Ying Seung, Asiong[#]

(appointed on 11th November 2003)

Mr. CHUNG Kong Fei, Stephen[#]

(appointed on 16th March 2004)

Mr. NG Wai Hung[#]

(resigned on 19th November 2003)

[#] *Independent non-executive directors*

In accordance with Article 157 of the Company's Articles of Association, Dr. PANG Shuen Wai, Nichols and Mr. Lam Ping Cheung will retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election. In accordance with Article 123 of the Company's Articles of Association, Mr. WONG Ying Seung, Asiong, Mr. QI Qing and Mr. CHUNG Kong Fei, Stephen will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Pursuant to an investment management agreement dated 6th October 1999 (the "Investment Management Agreement") between the Company and Alpha Asset Investments Limited ("Alpha"), Alpha has agreed to provide the Group with investment management and general administrative services. Under this arrangement, Alpha is entitled to a monthly management fee payable in advance at 2.5% per annum of the net asset value of the Group at the end of preceding month on the basis of actual number of days in the relevant calendar month over a year of 365 days. In addition, Alpha is also entitled to 15% of the surplus (the "Bonus") in the net asset value of the Group over a financial year or period. The aggregate of management fee and the Bonus paid to Alpha for the year amounted to HK\$956,593.

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DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

In accordance with the requirements of the waiver granted by The Stock Exchange of Hong Kong Limited, the 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 and is conducted in accordance with the terms of the Investment Management Agreement;
- (b) the above transaction has been entered into on normal commercial terms and on arm's length basis; and
- (c) the above transaction has been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

Mr. NGAN Man Kit, a former executive director of the Company, has 60% indirect equity interests in Alpha. Accordingly, the said arrangements with Alpha constitute a connected transaction under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and also related party transactions under the accounting standards issued by the Hong Kong Society of Accountants ("HKSA"), as disclosed in note 20 to the accounts. The Investment Management Agreement was terminated on 27th April 2003.

Pursuant to an investment management agreement dated 5th November 2003 between the Company and CU Investment Management Limited ("CUIM"), CUIM has agreed to provide the Group with investment management services with effect from 5th November 2003. Under this arrangement, CUIM is entitled to a monthly management fee payable in advance at 1.0% per annum of the net asset value of the Group at the end of preceding month on the basis of actual number of days in the relevant calendar month over a year of 365 days. The aggregate of management fee and the bonus paid/payable to CUIM for the year amounted to HK\$148,546.

Dr. PANG Shuen Wai, Nichols, an executive director of the Company, is also a director of CUIM. Accordingly, the said arrangements with CUIM constitute a connected transaction under Chapter 14 of the Listing Rules and also related party transactions under the accounting standards issued by HKSA, as disclosed in note 20 to the accounts.

During the year, CU Corporate Finance Limited ("CUCF") provided financial advisory services to the Company and the documentation services in relation to the preparation of the announcement and all submissions to The Stock Exchange of Hong Kong Limited regarding the appointment of investment manager for one year commencing on 5th November 2003 for a fee amounting to HK\$20,000.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS *(Continued)*

Pursuant to a placing agreement dated 18th December 2003 ("Placing Agreement") between the Company and CUCF, CUCF has been appointed as the Financial Advisor to the Company in connection with the placing on a best effort basis. Upon completion of the placing, CUCF will receive a fee of 0.5% of the gross proceeds.

CUCF is a deemed connected person of the Company under the Listing Rules. However, as the total fee payable to CUCF is under HK\$1 million, the transaction is exempted from any disclosure and shareholders approval requirements under Rule 14.24(5) of the Listing Rules. The placing of new shares was completed on 8th January 2004 and the placing fee paid to CUCF amounted to HK\$29,600.

During the year, Chung Nam Securities Limited ("CNSL") provided brokerage services to the Company and the brokerage fee paid/paid to CNSL amounted to HK\$21,144.

Pursuant to a placing agreement between the Company and CNSL, CNSL has been appointed as the Placing Agent to the Company in connection with the placing on a best effort basis. Upon completion of the placing, CNSL will receive a fee of 1.5% of the gross proceeds. The placing of new shares was completed on 8th January 2004 and the placing fee paid to CNSL amounted to HK\$88,800.

CNSL is a deemed connected person of the Company under the Listing Rules. However, as the total fee payable to CNSL is under HK\$1 million, the transaction is exempted from any disclosure and shareholders approval requirements under Rule 14.24(5) of the Listing Rules.

CUIM, CUCF and CNSL are the wholly owned subsidiaries of Hennabun Management Inc. ("HMI"). The issued share capital of HMI is beneficially owned as to 70.69% by China United International Holdings Limited ("China United").

Mr. WONG Man Ho, William, a former executive director of the Company, holds 361,800 shares in China United, being approximately 0.26% of the issued share capital of China United (whose shares are listed on The Stock Exchange of Hong Kong Limited). Ms. AU Shuk Yee, Sue, an executive director of the Company, holds 1,500,000 shares in China United, being approximately 1.05% of the issued share capital of China United.

Apart from the above, no other 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.

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

(I) Ordinary shares of HK\$0.10 each in the Company ("Shares")

As at 31st December 2003, the interests of the directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as notified to the Company were as follows:

| Name of director | Nature of interest | Number of shares | % of the relevant issued share capital |
|--------------------------|--------------------|------------------|----------------------------------------|
| Mr. NGAN Man Kit | Personal | 1,000,004 | 0.50% |
| Mr. WONG Man Ho, William | Personal | 300,000 | 0.15% |

All the interests stated above represent long positions. As at 31st December 2003, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO or so notified to the Company.

Mr. NGAN and Mr. WONG have resigned as directors of the Company on 15th July 2003 and 4th February 2004 respectively. On 27th January 2004, Mr. QI Qing has been appointed as an executive director of the Company, and Mr. QI beneficially owns 20,000 ordinary shares of the Company.

(II) Options

In light of the requirements of Chapter 17 of the Listing Rules, the Board proposed a new share option scheme (the "New Scheme"), which was subsequently approved by the shareholders of the Company on 2nd May 2003. Under the New Scheme, the directors of the Company may grant options to those participants who, in the opinion of the Board, have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest. No share options were granted under the New Scheme during the year.

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (Continued)

(II) Options (Continued)

Particulars of share options held by the directors of the Company under the share option scheme adopted by the shareholders of the Company in 1999 (the "1999 Scheme") during the year, after adjusting for the 1 for 1 bonus issue of shares effected on 24th May 2002, were as follows:

| Name of director | Date of grant | Number of share options granted under the 1999 Scheme | Exercise price | Option lapsed during the year | Balance outstanding as at 31st December 2003 | Exercise Period |
|------------------|--------------------|-------------------------------------------------------|----------------|-------------------------------|----------------------------------------------|------------------------------------------|
| Mr. NGAN Man Kit | 15th February 2000 | 4,000,000 | HK\$0.33 | 4,000,000 | - | 15th February 2000 to 14th February 2010 |

The share options granted to Mr. NGAN Man Kit, a former executive director, under the 1999 Scheme lapsed on 15th July 2003 following his resignation as a director of the Company. Apart from the aforesaid, at no time during the year was the Company or its subsidiaries a party to any arrangement 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.

Apart from the aforesaid, none of the directors of the Company (including their spouse and children under 18 years of age) had any interests in, or had been granted, or exercised any rights to subscribe for, shares in the Company and its associated corporations within the meaning of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, the register maintained under section 336 of the SFO recorded interests (as defined in the SFO) in the Company by the following corporations:

| Name of shareholder | Capacity | Number of Shares | % of the relevant issued share capital |
|---------------------------------------|--------------------|------------------|----------------------------------------|
| Ms. LO Ki Yan, Karen | Beneficial owner | 55,718,000 | 27.86 |
| Royal London Asset Management Limited | Investment manager | 16,000,000 | 8.00 |
| J.P. Morgan Chase & Co. | Other | 15,260,000 | 7.63 |
| Safe Box Assets Limited | Other | 9,988,000 | 5.00 |

* Ms. LO Ki Yan, Karen beneficially owns and controls the relevant shares through her wholly-owned company, Collier Assets Limited.

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SUBSTANTIAL SHAREHOLDERS *(Continued)*

All the interests stated above represent long positions. As at 31st December 2003, no short positions were recorded in the Register of Interests in Shares and Short Positions of Substantial Shareholders required to be kept under section 336 of the SFO.

CHANGE OF INVESTMENT MANAGER

Alpha Asset Investments Limited (the "Investment Manager") and the Company have mutually agreed to terminate the investment management agreement dated 6th October 1999 (the "Investment Management Agreement") on 26th April 2003 and on the same day the Company entered into an investment management agreement (the "New Investment Management Agreement") with Sinox Fund Management Limited (the "New Investment Manager") to appoint the New Investment Manager as an investment manager for a term of two years starting from 28th April 2003.

Pursuant to the New Investment Management Agreement, the Company will pay to the New Investment Manager a monthly investment management fee payable in Hong Kong dollars at 0.75% per annum of the Net Asset Value within fourteen (14) calendar days after the Valuation Date on the basis of the actual number of days in the relevant calendar month over a year of 365 days.

In addition to the monthly investment management fee payable to the New Investment Manager, the Company shall also pay to the New Investment Manager an annual performance fee, equivalent to 5% of the surplus in the audited Net Asset Value between the financial years provided always that the payment of the annual performance fee when aggregated together with the monthly investment management fee shall fully comply with the relevant provisions of the Listing Rules. The annual performance fee payable for each financial year shall be approved by the Board within two calendar months after the public announcement of the Company's audited annual results of each financial year.

On 5th November 2003 the Company and the New Investment Manager mutually agreed to terminate the New Investment Management Agreement and the Company entered into a new investment management agreement with CUIM on the same date for a term of one year starting from 5th November 2003 (the "2003 Investment Management Agreement").

Pursuant to the 2003 Investment Management Agreement, the Company will pay to CUIM a monthly investment management fee payable in Hong Kong dollars at 1.0% per annum of the Net Asset Value within fourteen (14) calendar days after the Valuation Date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, the Company shall not pay to CUIM any annual performance fee.

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CHANGE OF COMPANY SECRETARY

On 1st November 2003, the Company has appointed Ms. POON Suk Ching as Company Secretary.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its ordinary shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares during the year.

SUBSEQUENT EVENTS

On 18th December 2003, the Company announced the proposal to issue 40,000,000 ordinary shares of HK\$0.10 each at a subscription price of HK\$0.148 per share. On 8th January 2004, the 40,000,000 ordinary shares at a subscription price of HK\$0.148 per share were fully subscribed by independent third parties, raising net proceeds of approximately HK\$5.8 million which will be utilized for working capital.

Immediately after the share placement, the shareholding structure of the Company is:

| Name of shareholder | Capacity | Number of Shares | % of the relevant issued share capital |
|---------------------------------------|--------------------|--------------------|----------------------------------------|
| Lo Ki Yan, Karen* | Beneficial owner | 55,718,000 | 23.22 |
| Royal London Asset Management Limited | Investment manager | 16,000,000 | 6.67 |
| J.P. Morgan Chase & Co. | Other | 15,260,000 | 6.36 |
| Mr. WONG Man Ho, William** | Other | 300,000 | 0.12 |
| Public | Other | 112,722,004 | 46.96 |
| Independent placees | Other | 40,000,000 | 16.67 |
| | | <u>240,000,004</u> | <u>100.00</u> |

* Ms. LO Ki Yan, Karen beneficially owns and controls the relevant shares through her wholly-owned company, Collier Assets Limited.

** Mr. WONG Man Ho, William was a director of the Company and has resigned as a director on 4th February 2004.

On 5th March 2004, the Company announced another proposal to issue another 48,000,000 new ordinary shares of HK\$0.10 each at a subscription price of HK\$0.20 per share. The due date for the new share placement will be 15th April 2004.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year, in compliance with the Code of Best Practice as set out in the Listing Rules (the “Code of Best Practice”) except that independent non-executive directors of the Company are not appointed for a specified term as recommended in Paragraph 7 of the Code of Best Practice. According to the Articles of Association of the Company, independent non-executive directors of the Company will retire by rotation and their appointments will be reviewed when they are due for re-election. In the opinion of the directors of the Company, this meets the same objective of the Code of Best Practice.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company’s Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 51.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee of the Company comprises three independent non-executive directors, namely Messrs. LAM Ping Cheung, WONG Ying Seung, Asiong and CHUNG Kong Fei, Stephen. Two meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
PANG Shuen Wai, Nichols
Executive Director

Hong Kong, 26th March 2004