

## **DIRECTORS' REPORT**

The Board presents their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2005.

### **PRINCIPAL ACTIVITIES**

The Company is principally engaged in investing in listed and unlisted companies in the PRC, Hong Kong and Taiwan.

### **SEGMENT INFORMATION**

No segment information is presented as all revenue, 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 turnover was principally derived from its divestments in trading securities and it is believed that the disclosure of information regarding customers and suppliers would not be meaningful.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 March 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 15 to 38.

The Board does not recommend payment of any dividend for the year ended 31 March 2005 (2004: Nil).

### **SHARE CAPITAL**

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

### **RESERVES**

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 18 of this report and other details of the reserves of the Group and the Company is set out in note 19 to the financial statements.

### **DISTRIBUTABLE RESERVES**

Under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium of the Company is distributable to the shareholders of the Company subject to the provisions of the Memorandum and Articles of Association and a statutory solvency test. The Articles of Association provide that an ordinary resolution passed by the shareholders of the Company is required for any distribution out of the share premium account.

The Company's reserves available for distribution comprise the share premium and accumulated profits. In the opinion of the Board, the Company's reserves available for distribution to the shareholders at 31 March 2005 was HK\$11,596,116 (2004: HK\$32,717,596).

## **DIRECTORS' REPORT**

### **DIRECTORS**

The directors of the Company during the year and to the date of this report are:

*Executive Directors:*

Mr. Jerry CHIOU

Mr. POON Ho-man

*(appointed on 22 December 2004)*

Mr. LIU Yong

*(resigned on 22 December 2004)*

Mr. LIU Chen-chun

*(resigned on 19 January 2005)*

*Non-Executive Director:*

Mr. HSIEH Chin-chen

*Independent Non-Executive Directors:*

Mr. FU Heng-yang

Mr. HA Tak-kong

*(appointed on 3 June 2004)*

Mr. HUANG Ching-chung

*(appointed on 27 September 2004)*

Mr. LEE Hsien-chou

*(resigned on 31 May 2004)*

In accordance with the Company's Articles of Association, Mr. POON Ho-man, Mr. HUANG Ching-chung and Mr. HSIEH Chin-chen shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### **DIRECTORS' SERVICE CONTRACTS**

Mr. POON Ho-man entered into service contracts with the Company for an initial term of three years commencing on 1 March 2005 unless terminated by not less than three months' written notice or payment in lieu of such notice served by either party.

Mr. Jerry CHIOU entered into service contracts with the Company for an initial term of three years commencing on 28 July 2003 unless terminated by not less than three months' written notice or payment in lieu of such notice served by either party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### **DIRECTORS' INTERESTS IN CONTRACTS**

Saved as disclosed in note 21 to the financial statements, no other contracts of significance in relation to the Group'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 year or at any time during the year.

## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 March 2005, the interests and short positions of the directors and chief executives in the ordinary shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (including interest which they are deemed or taken to have under such provisions 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 Transaction by Directors of Listed Companies (the "Model Code") were as follows:

| <b>Name of director</b> | <b>Nature of interest</b> | <b>Number of shares held</b> | <b>Approximate percentage of shareholding</b> |
|-------------------------|---------------------------|------------------------------|---|
| Mr. POON Ho-man         | Corporate                 | 15,000,000                   | 18.70%  |

#### *Notes:*

Mr. POON Ho-man, an executive director of the Company, is interested by virtue of his 100% interest in Planters Universal Limited, a company incorporated in the British Virgin Islands.

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 recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notifiable to the Company and the Stock Exchange pursuant to the Model Code.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "SHARE OPTIONS", at no time during the year 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

During the year, the Group has entered into the following transactions with "connected persons" for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

#### (a) **Investment Management Agreement**

Pursuant to the investment management agreement dated 3 March 2004 (the "IM Agreement"), the Company appointed AVANTA Investment Management Limited ("AVANTA") (formerly known as "AVANTA Investment (International) Limited"), a company which is owned by Mr. POON Ho-man and Mr. LEUNG Koon-sing, a non-executive director of the Company, as to 90% to 10% respectively, as its investment manager to provide investment management services and general administrative services to the Company. In return, AVANTA was entitled to an investment management fee of HK\$450,000 per annum, which shall be paid in advance on a monthly basis in advance (i.e. at a monthly payment of approximately HK\$37,500) net of tax incurred as a result of the payment, except for Hong Kong profits tax. 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 IM Agreement constitutes a connected transaction of the Company. During the year, total investment

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management fee of HK\$450,000 (2004: HK\$730,221) and annual incentive fee of HK\$Nil (2004: HK\$187,082) was accrued in the books of the Company.

The Company and AVANTA entered into a termination agreement on 14 June 2005 whereas both parties mutually agreed to waive the termination notice requirement as stipulated in the IM Agreement and to terminate the IM Agreement with effect from the close of business on 15 June 2005 with no penalty nor compensation required.

### **(b) Custodian Agreement**

On 23 December 2002, the Company appointed ABN-AMRO Bank as the Custodian. During the year, no custodian fee had paid to ABN-AMRO Bank (2004: Nil). 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 of the Listing Rules, and would be exempted from the reporting, announcement and/or shareholders' approval requirements under the Listing Rules.

The board of directors, including the independent non-executive directors, is of the view that the above connected transactions have been entered into on normal commercial terms, on an arm's length basis and in the ordinary and usual course of business of the Group, and that the terms of the above connected transactions are fair and reasonable to the shareholders and the Group as a whole.

## **MANAGEMENT CONTRACTS**

Save as disclosed in the paragraph "Connected Transactions" in this report, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## **RETIREMENT BENEFITS SCHEME**

Details of the retirement benefits scheme are set out in note 22 to the financial statements.

## **SHARE OPTIONS**

The Company's share option schemes (the "Schemes"), the Post-IPO and Pre-IPO Share Option Schemes were adopted by the sole shareholder of the Company by way of written ordinary resolution and written resolution respectively 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 shares 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 of HK\$1 from each of them and details are as follows:

| Name of grantee     | Date of grant | Exercisable period (both dates inclusive) | Exercise price at 31 March 2005<br>HK\$ | Number of Share Options outstanding at 1 April 2004 | Number of Share Options lapsed during the year | Number of Share Options outstanding at 31 March 2005 |
|---------------------|---------------|---|---|---|--|--|
| Mr. LIU Chen-chun   | 31.08.02      | 19.03.03-19.09.04                         | N/A                                     | 800,000   | (800,000)                                      | -  |
| Mr. HSIEH Chin-chen | 31.08.02      | 19.03.03-19.09.04                         | N/A                                     | 400,000   | (400,000)                                      | -  |
|                     |               |   |   | <u>1,200,000</u>                                    | <u>(1,200,000)</u>                             | <u>-</u>   |

On or before the date of options being granted under the Pre-IPO Share Opinion Scheme on 31 August 2002, shares in the capital of the Company has not yet started trading on the Stock Exchange. Compared with the initial issue price as per the Company's prospectus dated 10 September 2002, the exercise price for options granted represents a premium of 20%.

At the annual general meeting of the Company held on 19 September 2003, it was resolved to amend the rules of the Pre-IPO Share Option Scheme so as to have all options granted under the scheme lapsed automatically and not be exercisable after the date on which the grantee ceases serving the Company.

As at 19 September 2004, all outstanding options formerly granted under the Share Option Scheme were lapsed. Save as disclosed above, no options have been exercised, cancelled or lapsed during the year ended 31 March 2005.

The options granted to directors of the Company are not recognised in the consolidated financial statements until they are exercised. The Board 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 Board 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 of the Company.

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### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, to the best knowledge of the Board and chief executives of the Company, the following persons, not being directors or chief executives of the Company, had an interest or short positions in 5% or more in the shares and underlying shares of the Company have notified the Company and being recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

| Name of shareholder                       | Note | Number of shares held | Approximate percentage of shareholdings |
|---|------|-----------------------|---|
| Planters Universal Limited                | 1    | 15,000,000            | 18.70%                                  |
| Everest International Investments Limited |      | 6,000,000             | 7.48%                                   |
| TIS Securities (HK) Limited               |      | 4,380,000             | 5.46%                                   |

*Note:*

1. Planters Universal Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. POON Ho-man, an executive director of the Company.

Save as disclosed above, at 31 March 2005, the Company had not been notified of any other person, not being an director or chief executive of the Company, who has interest or short positions in the shares of the Company representing 5% or more of the Company's issued share capital.

### POST BALANCE SHEET EVENT

Details of events after balance sheet date are set out in note 23 to the financial statements.

### PURCHASE, SALE AND REDEMPTION OF SHARES

For the year ended 31 March 2005, neither the Company nor its subsidiary had purchased, sold or redeemed any of the Company's shares.

### AUDIT COMMITTEE

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment.

The existing Audit Committee of the Company comprises three independent non-executive directors, namely, Mr. HA Tak-kong (Chairman of the Audit Committee), Mr. FU Heng-yang and Mr. HUANG Ching-chung.

The Group's annual report for the year ended 31 March 2005 has been reviewed by the Audit Committee.

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### **CORPORATE GOVERNANCE**

The Company had complied throughout the year ended 31 March 2005 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except that the non-executive director and independent non-executive directors of the Company are not appointed for a specific terms but they are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company Articles of Association.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year.

The Company has received from each of the independent non-executive directors an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company is in the opinion that all the independent non-executive directors are independent.

### **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 which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

### **FINANCIAL SUMMARY**

Details of the financial summary in relation to the Group's business are set out in page 39.

### **AUDITORS**

The Group's financial statements for the years ended 31 March 2003 and 2004 were audited by Messrs. RSM Nelson Wheeler.

Messrs. RSM Nelson Wheeler retired as auditors of the Company at the annual general meeting on 23 September 2004 (the "AGM") and did not seek for re-election. Messrs. KLL Associates CPA Limited were appointed as the new auditors of the Company at the AGM and to hold office until the conclusion of the next annual general meeting of the Company.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. KLL Associates CPA Limited as the auditors of the Company.

By Order of the Board

**POON Ho-man**

*Executive Director*

Hong Kong, 23 June 2005