

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, while the Group is principally engaged in investing in listed and unlisted companies established and/or doing business in Hong Kong and other parts of the PRC. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## SEGMENT INFORMATION

The Group is principally engaged in the investment in listed and unlisted companies and all the investment decisions are made in Hong Kong. Accordingly, no analysis of business segment is provided. No geographical analysis is presented as none of the Group's turnover, contribution to operating profit, assets and liabilities are attributable to markets outside the PRC (including Hong Kong).

## RESULTS

The Group's loss for the year ended 30 June 2002 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 30.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last two financial year/period, as extracted from the audited financial statements, is set out below.

	Year ended 30 June 2002 HK\$	Period from 12 July 2000 (date of incorporation) to 30 June 2001 HK\$
Turnover	<u>2,891,700</u>	<u>–</u>
Net loss for the year/period attributable to shareholders	<u>(4,971,570)</u>	<u>(467,715)</u>
	As at 30 June	
	2002 HK\$	2001 HK\$
TOTAL ASSETS	29,981,837	35,141,150
TOTAL LIABILITIES	<u>(476,235)</u>	<u>(663,978)</u>
	<u>29,505,602</u>	<u>34,477,172</u>

## FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 11 to the financial statements.

## 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 existing shareholders.

# REPORT OF THE DIRECTORS

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 17 to the financial statements.

## DISTRIBUTABLE RESERVES

At 30 June 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$25,505,602 (2001: HK\$30,511,172). Under the Companies Law (2000 Revision) of the Cayman Islands concerning the application of the share premium account, this amount is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Ms. Chiu Kam Hing, Kathy (*Chairman*)

Mr. Pong Po Lam, Paul

Ms. Ho Chiu King, Pansy

Mr. Fang Wei An, Anthony

(appointed on 1 March 2002)

*Non-executive directors:*

Mr. Lau Sak Hong

Dr. Chan Po Fun, Peter

*Independent non-executive directors:*

Dr. Lee Tung Hai, Leo

Dr. Cheung Wai Bun, Charles

Subsequent to the balance sheet date, on 19 September 2002, Mr. Fang Wei An, Anthony resigned as a director of the Company.

In accordance with article 87(3) of the Company's articles of association, Mr. Pong Po Lam, Paul, Ms. Ho Chiu King, Pansy and Dr. Chan Po Fun, Peter will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors but not including the chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the Annual Report.

## DIRECTORS' SERVICE CONTRACTS

Ms. Chiu Kam Hing, Kathy has entered into a service contract with the Company for an initial term of three years commencing from 8 June 2001, the date on which the dealing in the shares in the Company on the Stock Exchange commenced. The service contract may be terminated by either party thereto giving to the other three months' prior notice in writing, providing that the notice period shall not expire at any time during the first year.

Apart from the foregoing, 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.

## DIRECTORS' INTERESTS IN CONTRACTS

Except for the related party and connected transactions which are disclosed below and in note 21 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

### Ordinary shares of the Company

Name of director	Notes	Nature of interest	Number of ordinary shares
Ms. Chiu Kam Hing, Kathy	(a)	Corporate	5,000,000
Ms. Ho Chiu King, Pansy	(b)	Corporate	3,000,000
Mr. Lau Sak Hong	(c)	Corporate	500,000

Notes:

- (a) The shares are held by Good Win Holdings Limited, a company wholly-owned by Ms. Chiu Kam Hing, Kathy.
- (b) The shares are held by Bond Dollar Assets Limited, a company wholly-owned by Ms. Ho Chiu King, Pansy.
- (c) The shares are held by Typical Triumph Corp., which is wholly-owned by Starlight International Holdings Limited, a company listed on the Stock Exchange, which is in turn owned as to approximately 31.9% by Mr. Lau Sak Hong and his associates.

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in share capital" above and "Share option scheme" below, at no time during the year 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 24 May 2001, the Company approved the Scheme under which the directors may, at their discretion, grant to full-time employees and executive directors of the Group, the right to take up options to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 8 June 2001 and unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Subsequent to the adoption of the Scheme on 24 May 2001, the Stock Exchange has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. No share options have been granted under the Scheme since the adoption of these new rules on 1 September 2001. However, any option to be granted under the Scheme shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;

## SHARE OPTION SCHEME (Continued)

- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- (c) the exercise price of share options is determined by directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

Under the existing Scheme, the maximum number of shares over which options may be granted must not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is to be subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1. The options granted can be exercised at any time during a period specified by the directors, which commences on the grant date and expires on the last day of such period, and in any event such period must not be less than 3 years and not more than 10 years from the grant date of the options.

Summary details of the Company's share option scheme are also set out in note 16 to the financial statements.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's share capital
Good Win Holdings Limited (Note)	5,000,000	12.5

Note: Good Win Holdings Limited is a company wholly-owned by Ms. Chiu Kam Hing, Kathy, the chairman and an executive director of the Company, as detailed under "Directors' interests in share capital" above.

Save as disclosed above, the directors were not aware of any person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at 30 June 2002 that was required to be recorded under Section 16(1) of the SDI Ordinance.

## RELATED PARTY AND CONNECTED TRANSACTIONS

Pursuant to the Investment Management Agreement dated 24 May 2001 between the Company and Glory Investment Assets Limited (the "Investment Manager"), the Investment Manager has agreed to provide the Company with investment management services and general administrative services after it is registered as an investment adviser under the Securities Ordinance. The Investment Manager was registered as an investment adviser under the Securities Ordinance on 19 June 2001 for a three-year period commencing on 5 July 2001, the date immediately after the expiration of the term of the Interim Investment Management Agreement. Under the Investment Management Agreement, the Investment Manager is entitled to a monthly management fee payable in advance at 2.5% per annum of the net asset value of the Group as at the end of the preceding month, 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 15% of an increase in net asset value of the Group over a financial year or period.

## RELATED PARTY AND CONNECTED TRANSACTIONS (*Continued*)

During the year, an investment management fee amounting to HK\$736,000 was paid to the Investment Manager for services rendered.

Ms. Chiu Kam Hing, Kathy, the chairman and an executive director of the Company, has a 30% equity interest in the Investment Manager and is one of the directors of the Investment Manager. Accordingly, this arrangement constitutes a connected transaction under Chapter 14 of the Listing Rules and also a related party transaction under the accounting standards issued by the Hong Kong Society of Accountants, as disclosed in note 21 to the financial statements.

In accordance with the requirements of the waiver granted by the Stock Exchange, 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 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.

Pursuant to a supplemental agreement to the Investment Management Agreement dated 25 June 2002 entered into between the Company and the Investment Manager (the "Supplemental Agreement"), the monthly management fee payable in advance was reduced from 2.5% per annum to 2.0% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Supplemental Agreement became effective subsequent to the balance sheet date, on 2 August 2002.

Details of related party transactions of the Group are set out in note 21 to the financial statements.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 22 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules during the year and up to the date of this report, except that the independent non-executive directors have not been appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 24 May 2001, with written terms of reference, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises the two independent non-executive directors. Three audit committee meetings were held during the year and prior to the date of this report.

## AUDITORS

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

ON BEHALF OF THE BOARD

**Chiu Kam Hing, Kathy**  
*Chairman*

Hong Kong  
17 October 2002