

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2002.

Principal Activities

The Company is an investment holding company. The Company and its principal subsidiaries invest in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China (the "PRC").

Results

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 13 of the financial statements.

The directors do not recommend the payment of a dividend for the year.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

Share Capital

On 15th March, 2002, Fortuna Alliance Limited, which is a substantial shareholder of the Company holding 25% of the issued share capital of the Company, entered into a placing and subscription agreement for the placing of up to 20 million existing ordinary shares of HK\$0.01 each in the share capital of the Company, representing 20% of the issued share capital of the Company, at a placing price of HK\$0.35 per share to independent investors and the conditional subscription of new shares up to the same number of the shares successfully placed by the placing agents at the subscription price of HK\$0.35 per share, being the same as the placing price. Upon completion of the placing and subscription on 27th March, 2002, the shareholding of Fortuna Alliance Limited in the Company's enlarged issued capital became 20.83%. The net proceeds of the subscription were approximately HK\$6.6 million which would be used for making investments and working capital purposes. The new shares ranked *pari passu* with the existing shares in all respects.

Other details of the share capital of the Company are set out in note 20 to the financial statements.

Share Option Scheme

The Company has adopted a share option scheme ("the Scheme") on 23rd May, 2002. The purpose of the Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Participants include (a) any full-time employee, director (including any non-executive director or independent non-executive director) and part time employee of the Company or of any of its subsidiaries; (b) any advisor or consultant (in the areas of financial or corporate managerial) to the Company or to any of its subsidiaries; and (c) any adviser, consultant, agent, business affiliates or any person or entity who provides research or other support directly or indirectly to the Group, and any employee, adviser or consultant to the investment management company for the Company.

Share Option Scheme (continued)

The directors may, at their absolute discretion, made an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 12,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the Scheme in any 12-month period must not exceed 1 per cent. of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 per cent. limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 23rd May, 2002.

No option was granted since adoption of the Scheme.

Directors

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

Executive Directors:

Mr. Wong Fong Kim

Mr. Lee Wa Lun, Warren

Mr. Tai Ah Lam, Michael

Mr. Chan Cheong Yee

(appointed on 1st June, 2002)

Dr. Chow Pok Yu, Augustine

(resigned on 1st June, 2002)

Non-executive Director:

Mr. Chang Hang Vai

Independent Non-executive Directors:

Mr. Hui Hung, Stephen

Dr. Wong Yun Kuen, Edward

Mr. Hsieh Dominick

Directors' Report

Directors (continued)

In accordance with Article 123 of the Company's Articles of Association, Mr. Chan Cheong Yee retires and, being eligible, offers himself for re-election.

In accordance with Article 157 of the Company's Articles of Association, Mr. Wong Fong Kim and Mr. Hui Hung, Stephen retire by rotation and, being eligible, offers themselves for re-election.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each of the Independent Non-executive Directors is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

Directors' Interests in Shares

At 31st December, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Nature of interest	Number of shares of the Company
Mr. Wong Fong Kim (<i>Note 1</i>)	Corporate	25,000,000
Mr. Tai Ah Lam, Michael ("Mr. Tai") (<i>Note 2</i>)	Corporate	25,000,000

Notes:

1. These shares were held by Ever Harvest Investment Limited, a company wholly owned by Mr. Wong Fong Kim, who was deemed to be interested in those shares.
2. These shares were held by Fortuna Alliance Limited, a company wholly owned by Mr. Lam Andy Siu Wing ("Mr. Lam"), who was also deemed to be interested in those shares at 31st December, 2002.

On 11th December, 2001, Mr. Tai entered into a sale and purchase agreement (the "S & P Agreement") with Mr. Lam whereby Mr. Lam agreed to sell and Mr. Tai agreed to purchase the entire issued share capital of and shareholder's loan to Fortuna Alliance Limited for a total consideration of HK\$11,687,100. According to the S & P Agreement, the transaction should have been completed on or before 30th June, 2002. Pursuant to two supplemental agreements entered into between Mr. Tai and Mr. Lam, the completion date of the S & P Agreement was finally extended to be on or before 31st December, 2002. On 8th January, 2003, the Company was informed by Mr. Lam that the transaction was cancelled as Mr. Tai had not completed the transaction on the agreed extended completion date of 31st December, 2002 and a cancellation agreement had been entered into between the two parties. After the entering of the cancellation agreement, Mr. Lam continued to be a substantial shareholder of the Company.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company or any of 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, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

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Substantial Shareholders

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholders	Number of shares held
Ever Harvest Investment Limited (<i>Note 1</i>)	25,000,000
Fortuna Alliance Limited (<i>Note 2</i>)	25,000,000

Notes:

1. These shares were held by Ever Harvest Investment Limited, a company wholly owned by Mr. Wong Fong Kim, who was deemed to be interested in those shares.
2. These shares were held by Fortuna Alliance Limited, a company wholly owned by Mr. Lam, who was also deemed to be interested in those shares at 31st December, 2002.

On 11th December, 2001, Mr. Tai entered into a sale and purchase agreement (the "S & P Agreement") with Mr. Lam whereby Mr. Lam agreed to sell and Mr. Tai agreed to purchase the entire issued share capital of and shareholder's loan to Fortuna Alliance Limited for a total consideration of HK\$11,687,100. According to the S & P Agreement, the transaction should have been completed on or before 30th June, 2002. Pursuant to two supplemental agreements entered into between Mr. Tai and Mr. Lam, the completion date of the S & P Agreement was finally extended to be on or before 31st December, 2002. On 8th January, 2003, the Company was informed by Mr. Lam that the transaction was cancelled as Mr. Tai had not completed the transaction on the agreed extended completion date of 31st December, 2002 and a cancellation agreement had been entered into between the two parties. After the entering of the cancellation agreement, Mr. Lam continued to be a substantial shareholder of the Company.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

Investment Management Contract

Pursuant to an agreement dated 6th July, 1998 (the "Agreement"), the Company has appointed Haywood Investment Management Limited, a company of which a director of the Company, Mr. Chan Cheong Yee was also a director as at 31st December, 2002 and in which Mr. Wong Fong Kim and Dr. Chow Pok Yu, Augustine, a director and a former director of the Company had a 9% and 91% beneficial interests respectively as at 31st December, 2002, as its manager for the purpose of investment management and administration of the Company. In return, Haywood Investment Management Limited will be entitled to a monthly fee at 1.5% per annum of the net asset value of the Company at each preceding month end as defined in the Agreement and an incentive fee equivalent to 10% of the surplus in net asset value (with appropriate adjustment) over the previous financial year. During the year, the Company paid a management fee amounting to approximately HK\$691,000 to Haywood Investment Management Limited. In the opinion of the Independent Non-executive Directors, the payment of management fee was:

- (i) in the ordinary and usual course of the Company's business and was in accordance with the terms of the relevant agreement;
- (ii) on normal commercial terms and on an arm's length basis; and

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Investment Management Contract (Continued)

(iii) fair and reasonable so far as the shareholders of the Company are concerned.

Save as disclosed, no contracts of significance to which the Company or any of 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.

Purchase, Sale or Redemption of the Company's Listed Shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors' Interest in Competing Business

Dr. Chow Pok Yu, Augustine, a former director of the Company and currently a director of its Investment Manager-Haywood Investment Management Limited, is also a director of Harmony Asset Limited. Harmony Asset Limited is a company principally engaged in the investments in listed and unlisted securities, and its business is deemed to constitute a competing business to the Group.

The Board of Directors of the Group has established procedures to identify any conflict of interests due to Dr. Chow Pok Yu, Augustine's directorship in Harmony Asset Limited. If a conflict of interest arises, Dr. Chow Pok Yu, Augustine will abstain from participating in making investment decisions. The Group is therefore capable of carrying on its business independent of that of Harmony Asset Limited.

Post Balance Sheet Event

Details of a significant event occurring after the balance sheet date are set out in note 26 to the financial statements.

Corporate Governance

The Company has complied throughout the year ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Tai Ah Lam, Michael
Executive Director

Hong Kong, 28th April, 2003