

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements. The Group principally invests in listed and unlisted companies in Hong Kong and on other parts of the People's Republic of China (the "PRC").

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 32 to 59.

The directors do not recommend the payment of a dividend.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

## SHARE CAPITAL

On 27 February 2003, the Company entered into a placing agreement for the placing of 24,000,000 new shares ("Placing Shares") at a price of HK\$0.04 per Placing Share (the "Placement"). The Placing Shares represented 20% of the then existing issued share capital of the Company. Upon completion of the Placement on 3 April 2003, the Placing Shares represented approximately 16.67% of the issued share capital of the Company as enlarged by the issue of the Placing Shares. The net proceeds of the Placement of approximately HK\$842,000 have been used as additional working capital of the Company and have not been utilised for investment. The Placing 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 18 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the financial statements on pages 35 and 56 respectively.

## DIRECTORS

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

### **Executive Directors:**

Mr. Wong Fong Kim (*Chairman*)

Mr. Tai Ah Lam, Michael

Mr. Lok Kung Yao, Perry (appointed on 26 January 2004)

Mr. Chan Cheong Yee (resigned on 30 June 2003)

Mr. Lee Wa Lun, Warren (resigned on 26 January 2004)

### **Non-executive Directors:**

Mr. Chang Hang Vai

Mr. Lam Shu Chung (appointed on 10 March 2004)

### **Independent Non-executive Directors:**

Dr. Wong Yun Kuen, Edward

Mr. Hsieh Dominick

Mr. Chang Kin Man (appointed on 19 April 2004)

Ms. Susan Wong (appointed on 17 December 2003 and resigned on 1 April 2004)

Mr. Hui Hung, Stephen (resigned on 9 December 2003)

In accordance with Article 123 of the Company's Articles of Association, Mr. Lam Shu Chung, Mr. Lok Kung Yao, Perry and Mr. Chang Kin Man retire and, being eligible, offer themselves for re-election.

In accordance with Article 157 of the Company's Articles of Association, Dr. Wong Yun Kuen, Edward and Hsieh Dominick retire by rotation and, being eligible, offer 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 SECURITIES

As at 31 December 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in the shares of the Company

Name of director	Capacity	Nature of interest	Number of shares held	Approximate % of issued share capital of the Company as at 31 December 2003
Mr. Wong Fong Kim	Interest owner of a controlled corporation	Corporate interest	25,000,000 (Note)	17.36%

*Note:* These shares were held by Ever Harvest Investment Limited, a company wholly owned by Mr. Wong Fong Kim, who was deemed to have interests in those shares.

Save as disclosed above, as at 31 December 2003, none of the directors or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE 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 or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company and any other body corporate.

## SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2003, other than the interests and short positions of the directors of the Company as disclosed above, the interests and short positions of the following persons in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

### Long positions in the shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximate % of issued share capital of the Company as at 31 December 2003
Mr. Lee Wing On, Samuel	Beneficial owner	25,000,000	17.36%
Ms. Wang Chao, Julia	Beneficial owner	9,575,000	6.65%

Saved as disclosed above, as at 31 December 2003, there was no other person who was recorded in the register of the Company as having an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 23 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, directors (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 adviser 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.

The directors may, at their absolute discretion, make 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 daily quotations sheet of the Stock Exchange on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange 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% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% 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 23 May 2002.

No options have been granted since the adoption of the Scheme.

### INVESTMENT MANAGEMENT CONTRACT

Pursuant to an agreement dated 6 July 1998 (the "Agreement"), the Company appointed Haywood Investment Management Limited, a company in which Mr. Wong Fong Kim, a director of the Company has a 9% beneficial interest as at 31 December 2003, 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\$335,000 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
- (iii) fair and reasonable so far as the shareholders of the Company are concerned.

Subsequent to the year end, the Group entered into an agreement with Haywood Investment Management Limited on 4 March 2004, whereby both parties have conditionally agreed to terminate the investment management agreement dated 6 July 1998. On the same day, the Group appointed Altus Capital Limited to provide investment management services until 30 December 2005, but this new appointment is subject to the approval from The Stock Exchange of Hong Kong Limited.

During the year, the Company made full provision of HK\$178,000 due from SAR Capital Limited, a related company in which a director of the Company, Mr. Tai Ah Lam, Michael has a beneficial interest.

Save as disclosed above, no other contracts of significance to which the Company and 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.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2003 and up to the date of this report, the directors of the Company do not have interests in companies of which their businesses compete or are likely to compete, either directly or indirectly, with the businesses of the Company as required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

### 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.

### CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meeting in accordance with the Company's Articles of Association.

### AUDIT COMMITTEE

As at 31 December 2003, the audit committee members comprised Dr. Wong Yun Kuen, Edward and Mr. Hsieh Dominick, who are all independent non-executive directors of the Company.

The committee's principal duties are to review and supervise the matters relating to audit, accounting and financial statements as well as internal control, risk evaluation and general compliance of the Group and reports directly to the board of directors of the Company. Two meetings were held by the committee during the year.

### AUDITORS

On 19 February 2004, Deloitte Touche Tohmatsu resigned as auditors of the Company and Grant Thornton were appointed to fill the casual vacancy by the Company's board of directors.

Grant Thornton retire and, being eligible, offer themselves for re-appointment as auditors of the Company. A resolution to re-appoint of Grant Thornton as auditors of the Company for the year ending 31 December 2004 is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Wong Fong Kim**

*Chairman*

Hong Kong, 28 April 2004