

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 2004.

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 People's Republic of China (the "PRC"). Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's loss for the year ended 30 June 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 to 40.

SUMMARY FINANCIAL INFORMATION

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

	Year ended 30 June 2004 HK\$	Year ended 30 June 2003 HK\$	Year ended 30 June 2002 HK\$	Period from 12 July 2000 (date of incorporation) to 30 June 2001 HK\$
Turnover	–	3,503,172	2,891,700	–
Net loss for the year/period attributable to shareholders	(6,100,480)	(18,156,574)	(4,971,570)	(467,715)

	As at 30 June			
	2004 HK\$	2003 HK\$	2002 HK\$	2001 HK\$
TOTAL ASSETS	9,256,533	15,496,763	29,981,837	35,141,150
TOTAL LIABILITIES	(5,554,580)	(4,147,735)	(476,235)	(663,978)
	3,701,953	11,349,028	29,505,602	34,477,172

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FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 20 and 21 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.

PURCHASE, REDEMPTION OR SALE 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 22 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

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.

Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 June 2004, the Company did not have any reserves available for distribution.

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DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Lau Sze Shing, Edward (<i>Chairman</i>)	(appointed on 27 February 2004)
Ms. Chiu Kam Hing, Kathy	
Mr. Pong Po Lam, Paul	
Ms. Ho Chiu King, Pansy	

Non-executive directors:

Mr. Lan Ning (<i>Vice Chairman</i>)	(appointed on 27 February 2004)
Mr. Ding Xiaobin	(appointed on 8 December 2003)
Dr. Chan Po Fun, Peter	
Mr. Lau Sak Hong	(resigned on 8 December 2003)

Independent non-executive directors:

Mr. Zhang Yong	(appointed on 8 December 2003)
Dr. Cheung Wai Bun, Charles	
Dr. Lee Tung Hai, Leo	(resigned on 8 December 2003)

Subsequent to the balance sheet date, on 23 July 2004, Mr. Wu Shenbin was appointed as executive director and Ms. Chan Man Yee was appointed as non-executive director of the Company. On 30 September 2004, Mr. Gu Qiu Rong was appointed as independent non-executive director of the Company.

In accordance with article 87(3) of the Company's articles of association, Mr. Ding Xiaobin, Mr. Lan Ning, Ms. Chan Man Yee, Dr. Chan Po Fun, Peter, Mr. Zhang Yong and Mr. Gu Qiu Rong 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 5 to 7 of the Annual Report.

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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 on 8 June 2001, the date on which the dealing in the shares in the Company on The Stock Exchange of Hong Kong Limited (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. The service contract was terminated on 29 February 2004.

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 25 to the financial statements, no director had a significant beneficial interest, either directly or indirectly, 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the interests and short positions of the directors and chief executive in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long position in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust		
Mr. Lau Sze Shing, Edward (note)	–	8,500,000	8,500,000	–	8,500,000	17.71

Note: Mr. Lau Sze Shing, Edward is a beneficial shareholder of approximately 28.75% of the issued share capital of Oceanwide Investments Limited, which indirectly holds 8,500,000 shares of the Company through its wholly-owned subsidiary, Advance Elite Holdings Limited.

Ms. Chan Sui Kuen is the spouse of Mr. Lau Sze Shing, Edward. She is a beneficial shareholder of approximately 12.08% of the issued share capital of Oceanwide Investments Limited, which indirectly holds 8,500,000 shares of the Company through its wholly-owned subsidiary, Advance Elite Holdings Limited.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Oceanwide Investments Limited	(a)	Through a controlled corporation	8,500,000	17.71
Advance Elite Holdings Limited	(a)	Directly beneficially owned	8,500,000	17.71
Ms. Chan Sui Kuen	(b)	Through a controlled corporation	8,500,000	17.71
Mr. Deng Chi Yuan		Directly beneficially owned	4,830,000	10.06

Notes:

- (a) The ordinary shares are held by Advance Elite Holdings Limited, which is wholly-owned by Oceanwide Investments Limited.
- (b) Ms. Chan Sui Kuen was deemed to have substantial interest in 8,500,000 shares of the Company by virtue of her 12.08% indirect interest in Advance Elite Holdings Limited, which holds 8,500,000 shares of the Company, and being the spouse of a director, Mr. Lau Sze Shing, Edward, who has 28.75% indirect interest in Advance Elite Holdings Limited, of which their combined interest in the Company exceeded 5%.

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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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 agreed to provide the Company with investment management services and general administrative services after it became registered as an investment adviser under the Securities Ordinance. 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.

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 on 2 August 2002.

During the year on 24 May 2004, the above arrangement between the Company and the Investment Manager has been extended until 4 July 2005.

During the year, an investment management fee amounting to HK\$272,633 was paid to the Investment Manager for services rendered.

Ms. Chiu Kam Hing, Kathy, 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 is also a related party transaction under the accounting standards issued by the Hong Kong Institute of Certified Public Accountants, as disclosed in note 25 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 an 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.

Details of related party transactions of the Group are set out in note 25 to the financial statements.

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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 of the Hong Kong Stock Exchange, throughout the accounting period covered by the annual 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 has an audit committee (the “Committee”) which was established 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 three independent non-executive directors. Two audit committee meetings were held during the year and prior to the date of this report.

Subsequent to the balance sheet date on 30 September 2004, Mr. Gu Qiu Rong has been appointed as the Committee member.

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

Lau Sze Shing, Edward
Chairman

Hong Kong
13 December 2004