

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2006.

### 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 44.

### SUMMARY FINANCIAL INFORMATION

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

	Year ended 30 June 2006 HK\$	Year ended 30 June 2005 HK\$	Year ended 30 June 2004 HK\$	Year ended to 30 June 2003 HK\$
Turnover	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,503,172</u>
Net loss for the year/period attributable to shareholders	<u>(6,557,134)</u>	<u>(2,552,955)</u>	<u>(6,100,480)</u>	<u>(18,156,574)</u>
		As at 30 June		
	2006 HK\$	2005 HK\$	2004 HK\$	2003 HK\$
TOTAL ASSETS	6,979,139	9,244,245	9,256,533	15,496,763
TOTAL LIABILITIES	<u>(9,621,437)</u>	<u>(8,095,247)</u>	<u>(5,554,580)</u>	<u>(4,147,735)</u>
	<u>(2,642,298)</u>	<u>1,148,998</u>	<u>3,701,953</u>	<u>11,349,028</u>

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 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 therefore, are set out in notes 20 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.

### PURCHASES, 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 Bermuda 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 2006 and 30 June 2005, the Company did not have any reserves available for distribution.

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Mr. Pong Po Lam, Paul	
Ms. Wang Wenxia, Wendy	
Ms. Chiu Kam Hing, Kathy	(resigned on 13 January 2006)
Ms. Ho Chiu King, Pansy	(resigned on 13 January 2006)
Mr. Wu Shenbin	(resigned on 13 January 2006)

### Non-executive directors:

Mr. Lan Ning (*Chairman*)  
 Mr. Ding Xiao Bin  
 Dr. Chan Po Fun, Peter

### Independent non-executive directors:

Mr. Zhang Yong  
 Dr. Cheung Wai Bun, Charles  
 Mr. Gu Qiu Rong

In accordance with article 88 of the Company's Bye-Laws, Mr. Lan Ning, Mr. Ding Xiaobin 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 5 to 6 of the Annual Report.

## DIRECTORS' SERVICE CONTRACTS

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 24 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 2006, 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 a former 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 ( <i>note</i> )	–	–	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.

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 2006, 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.

## RELATED PARTY AND CONNECTED TRANSACTIONS

### Investment Management Agreement with Glory Investments Assets Limited

Pursuant to the Investment Management Agreement dated 24 May 2001 between the Company and Glory Investment Assets Limited ("Glory"), Glory 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. Glory 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, Glory 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 Glory 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 Glory (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.

On 24 May 2004, the above arrangement between the Company and Glory has been extended for a period of one year, with effect from 5 July 2004. The Agreement expired on 4 July 2005.

During the year, no investment management fee was paid to Glory for services rendered.

**RELATED PARTY AND CONNECTED TRANSACTIONS** *(Continued)***Investment Management Agreement with Glory Investments Assets Limited** *(Continued)*

Ms. Chiu Kam Hing, Kathy, a former executive director of the Company, has a 30% equity interest in Glory and is one of the directors of Glory. 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 24 to the financial statements.

**Investment Management Agreement with Pegasus Fund Managers Limited**

Pursuant to an investment management agreement dated 21 February 2006 between the Company and Pegasus Fund Managers Limited ("Pegasus"), which subsequently effective on 1 August 2006, whereby Pegasus has agreed to provide investment management services to the Company for a period of three years commencing from 1 August 2006. Pegasus is entitled to from the Company a management fee calculated at the following rates:

- (1) 2.5% per annum of the net asset value of the Group as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, subject to a monthly minimum fee of HK\$30,000.
- (2) 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK\$30,000,000.

Mr. Pong Po Lam, Paul, an executive director of the Company, has a 91.57% equity interest in Pegasus and is one of the directors of Pegasus. 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 transactions have been entered into in the ordinary and usual course of the business of the Company and are conducted in accordance with the terms of the Investment Management Agreement;
- (b) the above transactions have been entered into on normal commercial terms and on an arm's length basis; and
- (c) the above transactions have 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 24 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 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.

**AUDITORS**

On 14 October 2005, Messrs. Ernst & Young resigned, who acted as auditors of the Company for the years ended 30 June 2004 and 2003. CCIF CPA Limited was appointed as the Company’s auditors to fill up casual vacancy.

A resolution for the re-appointment of CCIF CPA Limited as the auditors of the Company for the ensuring year will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Lan Ning**

*Chairman*

Hong Kong  
23 October 2006