

# Directors' Report

The directors of the Company (the "Directors") present their report together with the audited financial statements for the year ended 31st December, 2003.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are securities broking, fund management, underwriting, share margin financing and investment holdings.

During the year, the Group also participated in the property development activity. The activity was discontinued after the disposal of the property development project in February 2003.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

## ASSOCIATES

Particulars of the Company's associates are set out in note 17 to the financial statements.

## RESULTS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 18.

## RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 29 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31st December, 2003, the Company did not have any reserves available for cash distribution. However, the Company's share premium account may be distributed in the form of fully-paid bonus shares.

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2003 (2002: Nil).

## 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 15 to the financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

## SHARE OPTIONS

The Company operates a share option scheme under which options will be granted to directors, employees or consultants of any members of the Group. Upon the adoption of this share option scheme on 27th June, 2002, the operation of the share option scheme adopted on 4th February, 1998 (the "1998 Share Option Scheme") was terminated such that no further options can thereafter be granted under the 1998 Share Option Scheme but in all other respects, the provisions of the 1998 Share Option Scheme remain in full force and effect.

In addition, on 6th August, 2002, the Company granted options to two substantial shareholders to subscribe for an aggregate of 200,000,000 shares.

Details of these share options and movements during the year are set out in note 33 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities other than as an agent for clients of its subsidiaries.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2003, less than 30% of the Group's sales and purchases were attributable to the Group's five largest customers and suppliers.

## GROUP FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 60.

## DIRECTORS

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

### Executive directors

Mr. Lu Ruifeng	
Mr. Li Jian Guo	(appointed on 8th January, 2004)
Ms. So Wai Yin, Irene	
Mr. Leung Shi Wing	(resigned on 8th January, 2004)
Dr. Gu Qinhua Joseph	(resigned on 29th July, 2003)
Mr. Norman Carrera Lowe	(resigned on 24th November, 2003)

### Non-executive director

Ms. Chau Mei Chun	(resigned on 8th January, 2004)
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### Independent non-executive directors

Mr. Lai Hin Wing, Henry
Mr. Lee G. Lam

In accordance with Article 103 of the Company's Articles of Association, Mr. Lai Hin Wing, Henry will retire by rotation at the forthcoming annual general meeting and will be eligible for re-election.

In accordance with Article 94 of the Company's Articles of Association, Mr. Li Jian Guo will retire at the forthcoming annual general meeting and will be eligible for re-election.

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st December, 2003, the interests of each director of the Company in the shares and share options of the Company, as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"), were as follows:–

### Long positions

(a) Ordinary shares of HK\$0.20 each of the Company

Name of Director	Capacity	Number of shares held	% of the issued share capital
Mr. Leung Shi Wing (Note 1)	Held by controlled corporations	619,500,000	49.50%
Ms. So Wai Yin, Irene	Beneficial Owner	11,899,973	0.95%
Mr. Lu Ruifeng	Beneficial Owner	1,389,808	0.11%

(b) Share options

Name of Director	Maximum number of shares over which options are exercisable	Exercise Price HK\$	Exercise period
Ms. So Wai Yin, Irene	1,000,000	0.49	13/07/1999 to 12/07/2004
	1,000,000	0.49	13/07/2001 to 12/07/2004
Mr. Leung Shi Wing (Note 2)	123,000,000	0.20	06/08/2002 to 05/08/2004

*Notes :*

- (1) These shares are beneficially owned by China United Telecom Limited ("China United"), 50% of the entire issued share capital of which is beneficially owned by Mr. Leung Shi Wing. By virtue of the SFO, Mr. Leung Shi Wing is deemed to be interested in all these shares held by China United.
- (2) Under the SFO, Mr. Leung Shi Wing is deemed to be interested in 123,000,000 outstanding options held by China United due to his 50% shareholding interest in China United. Pursuant to an option agreement dated 6th August, 2002 entered into between the Company and China United, the Company granted an option to China United to subscribe for an aggregate of 150,000,000 shares at a subscription price of HK\$0.20 per share and such option is exercisable within a period of 2 years from the date of such option agreement. As at 31st December, 2003, options to subscribe for 123,000,000 shares remained outstanding.

Save as disclosed above, as at 31st December, 2003, none of the directors and chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' SERVICE CONTRACTS**

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Except for the subscription agreement entered on 4th April, 2003, details of which are set out in the Company's circular dated 16th May, 2003, no contracts of significance, to which the Company, its ultimate holding company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the interests of substantial shareholders of the Company, as recorded in the register required to be kept under Section 336 of the SFO, were as follows:–

### (1) China United

China United has an interest in 619,500,000 shares of the Company. In addition, pursuant to an option agreement dated 6th August, 2002 entered into between the Company and China United, the Company granted an option to China United to subscribe for an aggregate of 150,000,000 shares at a subscription price of HK\$0.20 per share and such option is exercisable within a period of 2 years from the date of such option agreement. As at 31st December, 2003, options to subscribe for 123,000,000 shares remained outstanding.

### (2) Mr. Leung Shi Wing

Mr. Leung Shi Wing beneficially owns 50% of the entire issued share capital of China United and is deemed, by virtue of the SFO, to be interested in all the 619,500,000 shares and the 123,000,000 outstanding options mentioned in item (1) above both held by China United.

### (3) Mr. Evans Carrera Lowe

Mr. Evans Carrera Lowe is deemed, by virtue of the SFO, to be interested in an aggregate of 296,011,191 shares of the Company. Mr. Evans Carrera Lowe's interests comprise 35,320,804 shares registered under his name and 260,690,387 shares held through his controlled corporations, as to 197,500,000 shares held through High Reach Assets Limited, 44,227,947 shares held through Global Source Company Limited, 11,434,800 shares held through Supreme Grass Limited and 7,527,640 shares held through Lowe Holdings Company Limited, Inc.

In addition, pursuant to an option agreement dated 6th August, 2002 entered into between the Company and Mr. Evans Carrera Lowe, the Company granted an option to Mr. Evans Carrera Lowe to subscribe for an aggregate of 50,000,000 shares at a subscription price of HK\$0.20 per share and such option is exercisable within a period of 2 years from the date of such option agreement. As at 31st December, 2003, none of the options granted to Mr. Evans Carrera Lowe under the said subscription agreement have been exercised.

Save as disclosed above, as at 31st December, 2003, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company required to be recorded in the register kept under Section 336 of the SFO.

## DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December, 2003, the amounts due from Dynamic Assets Limited ("DAL"), Pharmatech Management Limited ("PML") and Noblesse Ventures Inc. ("NVI") before and after provision are summarised below.

	<b>DAL</b> <b>before (after)</b> <b>provision</b> HK\$	<b>PML</b> <b>before (after)</b> <b>provision</b> HK\$	<b>NVI</b> <b>before (after)</b> <b>provision</b> HK\$
Margin loans ( <i>Note 1</i> )	5,695,814 (Nil)	3,099,631 (Nil)	8,735,667 (502,350)
Other loans ( <i>Note 2</i> )	45,491,023 (Nil)	28,278,265 (Nil)	7,074,379 (Nil)
Total loans	<u>51,186,837</u> (Nil)	<u>31,377,896</u> (Nil)	<u>15,810,046</u> (502,350)

Notes:

1. The amounts due result from share margin loans. A total provision of HK\$17,028,762 (2002: HK\$17,322,292) has been made. Please refer to note 34 to the financial statements for further details in relation to these loans.
2. These loans were approved by shareholders of the Company in an extraordinary general meeting held on 23rd July, 1999. A total provision of HK\$80,843,667 (2002: HK\$80,843,667) has been made. Please refer to note 34 to the financial statements for further details in relation to these loans.
3. Due to a consolidated deficiency in tangible assets of HK\$23 million as recorded at the balance sheet date, it is not practicable to express the amount of the above advances to each entity as a percentage of the consolidated net tangible assets value of the Group.

## AUDIT COMMITTEE

The Audit Committee has met to review the system of internal control and its compliance, and the results of the Group for the year ended 31st December, 2003.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange throughout the year.

## AUDITORS

A resolution will be proposed at the forthcoming annual general meeting for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Lu Ruifeng**

*Chairman*

27th April, 2004