

The directors of the Company (the "Directors") present their report together with the audited financial statements for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES

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

ASSOCIATE

Particulars of the Company's associate is set out in note 17 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2004 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, 2004, 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, 2004 (2003: 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

Upon the adoption of the 2002 Share Option Scheme, the operation of the share option scheme adopted in 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.

Other than the aforementioned share option scheme, the Company granted options to two substantial shareholders to subscribe for an aggregate of 200,000,000 shares in the Company at a subscription price of HK\$0.20 per share on 6th August, 2002. Pursuant to the option agreements, all outstanding options were lapsed on 6th August, 2004.

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, 2004, 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 58.

DIRECTORS

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

Executive directors

Mr. LU Ruifeng	
Mr. YIU Hoi Ying	(appointed on 6th October, 2004)
Mr. LI Jian Guo	(appointed on 8th January, 2004 and resigned on 6th October, 2004)
Ms. SO Wai Yin, Irene	(resigned on 30th November, 2004)
Mr. LEUNG Shi Wing	(resigned on 8th January, 2004)

Non-executive director

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

Mr. LU Ning	(appointed on 9th September, 2004)
Mr. LI Chun	(appointed on 9th September, 2004)
Mr. LAU Hak Lap	(appointed on 27th January, 2005)
Mr. LAI Hin Wing, Henry	(resigned on 8th September, 2004)
Mr. Lee G. LAM	(resigned on 8th September, 2004)
Ms. CHOW Ching Yi	(appointed on 1st December, 2004 and resigned on 26th January, 2005)

In accordance with Article 103 of the Company's Articles of Association, Mr. LU Ruifeng 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. YIU Hoi Ying, Mr. LU Ning, Mr. LI Chun and Mr. LAU Hak Lap will retire at the forthcoming annual general meeting and will be eligible for re-election.

The term of office of each Director is the period up to his retirement by rotation at the next annual general meeting in accordance with the Company's Articles of Association.

None of the aforementioned Directors 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 compensation.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted as at 31st December, 2004 or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2004, the interests of the Directors in the shares 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:-

Name of Director	Nature of interest	Number of shares held (long position)	% of the issued share capital
Mr. LU Ruifeng	Held by controlled corporations (<i>Note</i>)	730,500,000	50.12%
	Beneficial owner	1,389,808	0.09%

Note: These shares are beneficially owned by China United, 35% of the entire issued share capital of which is held by Asia TeleMedia Holdings Limited (formerly known as Apex Equity Limited), a company beneficially owned by Mr. LU Ruifeng. By virtue of the SFO, Mr. LU Ruifeng is deemed to be interested in all these shares held by China United.

Save as disclosed above, as at 31st December, 2004, 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, 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:-

Name of shareholder	Nature of interest	Number of shares held (long position)	% of the issued share capital
China United	Beneficial owner	730,500,000	50.12%
Asia TeleMedia Holdings Limited (Notes 1 and 2)	Interest of controlled corporation	730,500,000	50.12%
Mr. LU Ruifeng (Note 3)	Interest of controlled corporation	730,500,000	50.12%
	Beneficial owner	1,389,808	0.09%
High Reach Assets Limited (Note 4)	Beneficial owner	197,500,000	13.55%
Mr. Evans Carrera LOWE (Note 5)	Interest of controlled corporation	260,390,387	17.86%
	Beneficial owner	35,320,804	2.42%

Notes:

1. Asia TeleMedia Holdings Limited (formerly known as Apex Equity Limited) beneficially owned 35% of the entire issued share capital of China United, and was therefore deemed, by virtue of the SFO, to be interested in the 730,500,000 shares held by China United.
2. The entire issued share capital of Asia TeleMedia Holdings Limited was beneficially owned by Mr. LU Ruifeng.
3. Mr. LU Ruifeng's interests in these shares comprised 1,389,808 shares registered under his name and 730,500,000 shares held through his controlled corporation, Asia TeleMedia Holdings Limited which owned 35% of the entire issued share capital of China United. Mr. LU Ruifeng was deemed, by virtue of the SFO, to be interested in 731,889,808 shares in aggregate.
4. The entire issued share capital of High Reach Assets Limited is beneficially owned by Mr. Evans Carrera LOWE.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS (Continued)

5. Mr. Evans Carrera LOWE's interests in these shares comprised 35,320,804 shares registered under his name and 260,390,387 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 7,227,640 shares held through Lowe Holdings Company Limited, Inc. Mr. Evans Carrera LOWE is deemed, by virtue of the SFO, to be interested in 295,711,191 shares in aggregate, amounting to approximately 20.28% of the entire issued share capital of the Company.

Save as disclosed above, as at 31st December, 2004, 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.

ADVANCES TO ENTITIES

As at 31st December, 2004, the amounts due from Dynamic Assets Limited ("DAL"), Pharmatech Management Limited ("PML") and Noblesse Ventures Inc. ("NVI") before and after allowance are summarised below.

	DAL before (after) allowance HK\$	PML before (after) allowance HK\$	NVI before (after) allowance HK\$
Margin loans (<i>Note 1</i>)	5,695,814 (Nil)	3,099,631 (Nil)	8,411,913 (53,364)
Other loans (<i>Note 2</i>)	45,491,023 (Nil)	28,278,265 (Nil)	7,074,379 (Nil)
Total loans	51,186,837 (Nil)	31,377,896 (Nil)	15,486,292 (53,364)

ADVANCES TO ENTITIES (Continued)

Notes:

1. The amounts due result from share margin loans. A total allowance of HK\$17,153,994 has been made. Please refer to note 34(b) 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 allowance of HK\$80,843,667 has been made. Please refer to note 34(a) to the financial statements for further details in relation to these loans.
3. Due to a consolidated deficiency in net tangible assets of approximately HK\$21.9 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.

LOANS PAYABLE

During the year, the Directors commenced a negotiation with one of its creditors in connection with the repayment arrangement of a loan amounting to HK\$58,083,993 and the negotiation has not yet been concluded. The whole amount of the loan was classified under current liabilities as at the balance sheet date. The Directors are confident that a satisfactory result of their negotiations with the creditor will be reached to ensure that there is no threat to the continuing operations 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, 2004. The audit committee comprises three members, Mr. LU Ning, Mr. LI Chun and Mr. LAU Hak Lap, the independent non-executive directors of the Company.

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 Listing Rules throughout the year.

PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public.

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, 2005