

AsiaTele  
Media



AsiaTeleMedia  
亞洲電信媒體

Interim Report

2005

## DIRECTORS

### Executive:

LU Ruifeng (*Chairman*)

YIU Hoi Ying

### Independent Non-Executive:

LU Ning

LI Chun

LAU Hak Lap

## COMPANY SECRETARY

WONG Nam, Marian

## REGISTERED OFFICE

2808, One Exchange Square

Central

Hong Kong

## SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

## STOCK CODE

376

The Board of Directors (the "Board") of Asia TeleMedia Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
Notes		2005	2004
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	5	1,951	3,226
Other operating income		444	722
Allowance for doubtful loans and bad debts		157	(166)
Depreciation of property, plant and equipment		(622)	(517)
Amortisation of intangible assets		(136)	(136)
Staff costs		(3,938)	(4,344)
Other operating expenses	6	(5,471)	(5,588)
Loss from operations		(7,615)	(6,803)
Finance costs		(2,034)	(18)
Share of profits of an associate		–	53
Loss before taxation		(9,649)	(6,768)
Taxation	7	–	–
Loss for the period		(9,649)	(6,768)
Loss per share	9		
Basic and diluted		(0.66) cents	(0.50) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 HK\$'000 (unaudited)	31 December 2004 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		2,051	2,555
Interest in an associate		716	716
Intangible assets		1,221	1,357
Statutory and other deposits		430	530
Other asset		500	500
		<b>4,918</b>	5,658
<b>Current assets</b>			
Accounts receivable	10	12,426	17,533
Other receivable, deposits and prepayments		36,889	13,574
Bank balances – trust and segregated accounts		34,467	50,816
Bank balances (general accounts) and cash		5,457	33,618
		<b>89,239</b>	115,541
<b>Current liabilities</b>			
Accounts payable	11	45,175	66,800
Other payables and accrued charges		14,470	14,584
Loans payable	12	58,084	58,084
Amount due to an associate		700	700
Amount due to a director		5,601	1,212
Obligation under finance lease	13	86	79
		<b>124,116</b>	141,459
<b>Net current liabilities</b>		<b>(34,877)</b>	(25,918)
<b>Non-current liabilities</b>			
Obligation under finance lease	13	257	307
<b>Net liabilities</b>		<b>(30,216)</b>	(20,567)
<b>Capital and reserves</b>			
Share capital	14	291,505	291,505
Reserves	15	(321,721)	(312,072)
		<b>(30,216)</b>	(20,567)

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Share capital</b>	<b>Share premium account</b>	<b>Asset revaluation reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
As at 1 January 2004	269,305	30,797	2,650	(324,389)	(21,637)
Loss for the period	–	–	–	(6,768)	(6,768)
As at 30 June 2004 and 1 July 2004	269,305	30,797	2,650	(331,157)	(28,405)
Exercise of share options	22,200	–	–	–	22,200
Loss for the period	–	–	–	(14,362)	(14,362)
As at 31 December 2004	291,505	30,797	2,650	(345,519)	(20,567)
Loss for the period	–	–	–	(9,649)	(9,649)
As at 30 June 2005	291,505	30,797	2,650	(355,168)	(30,216)

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Net cash (used in) from operating activities	(28,082)	1,010
Net cash (used in) from investing activities	(18)	84
Net cash used in financing activities	(61)	(974)
Net (decrease) increase in cash and cash equivalents	(28,161)	120
Cash and cash equivalents at 1 January	33,618	4,431
Cash and cash equivalents at 30 June	5,457	4,551
Analysis of the balances of cash and cash equivalents		
Bank balances (general accounts) and cash	5,457	4,551

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

### 1. General

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The nature of operations of the Group and its principal activities have not changed during the period except the discontinuation of the trust management services in April 2005, and consisted of securities broking, underwriting, share margin financing and investment holdings.

### 2. Basis of Preparation

(a) The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

(b) In preparing the condensed financial statements, the directors of the Company (the "Directors") have given consideration to the liquidity of the Group in light of its net current liabilities of HK\$34,877,000 and net liabilities of HK\$30,216,000 as at 30 June 2005. The Directors are taking active steps to improve the liquidity position of the Group. Included in the condensed consolidated balance sheet at 30 June 2005 is a loan payable of HK\$58,084,000 owed to a third party. The Company is in the process of negotiation with the third party for the settlement of the loan. Provided that the repayment arrangement of the loan can be agreed upon, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed financial statements have been prepared on a going concern basis.

### 3. Principal Accounting Policies

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (collectively as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has no material impact on the operating result and financial position of the Group.

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of intangible assets, and in accordance with accounting principles generally accepted in Hong Kong.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004.

#### 4. Business Segments

For management purposes, the Group is currently organised into two main operating segments, namely financial services and investment holdings. Financial services comprises securities broking, underwriting and share margin financing services.

Both financial services and investment holdings are based in Hong Kong. The business segments are shown as follows:

##### Income statement for the six months ended 30 June 2005

	Financial services HK\$'000	Investment holdings HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	1,944	7	1,951
Total turnover	1,944	7	1,951
RESULT			
Segment loss	(1,622)	(6,437)	(8,059)
Other operating income			444
Loss from operations			(7,615)
Finance costs			(2,034)
Share of profits of an associate			—
Loss before taxation			(9,649)
Taxation			—
Loss for the period			(9,649)



## Income statement for the six months ended 30 June 2004

	Financial services HK\$'000	Investment holdings HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>			
External sales	3,226	–	3,226
Total turnover	3,226	–	3,226
<b>RESULT</b>			
Segment loss	(1,166)	(6,359)	(7,525)
Other operating income			722
Loss from operations			(6,803)
Finance costs			(18)
Share of profits of associates			53
Loss before taxation			(6,768)
Taxation			–
Loss for the period			(6,768)

**5. Turnover**

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Brokerage and commission income	<b>1,751</b>	2,477
Interest income	<b>98</b>	445
Management fees income	<b>102</b>	304
	<b>1,951</b>	3,226

## 6. Other Operating Expenses

Included in other operating expenses are:

Rentals in respect of office premises

Six months ended 30 June	
2005	2004
HK\$'000	HK\$'000
1,660	1,834

## 7. Taxation

No provision for Hong Kong Profits Tax was made for both periods as the Group either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward for the two periods ended 30 June 2005 and 2004.

As at 30 June 2005, the Group has estimated unused tax losses of HK\$259 million (2004: HK\$249 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams, and no deferred tax liabilities in respect of accelerated depreciation allowance have been recognised as the amount involved is insignificant.

## 8. Dividends

As at 30 June 2005, 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 Board does not recommend the payment of an interim dividend (2004: Nil).

## 9. Loss Per Share

The calculation of basic loss per share is based on the loss for the period of approximately HK\$9,649,000 (2004: HK\$6,768,000) and 1,457,527,296 (2004: 1,346,527,296) shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the Company's options because their exercise would reduce loss per share.

**10. Accounts Receivable**

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Margin clients	<b>25,108</b>	25,352
Cash clients	<b>4,391</b>	10,557
Brokers, dealers and clearing houses	<b>8,027</b>	6,886
	<b>37,526</b>	42,795
Less: Allowance for doubtful debts	<b>(25,100)</b>	(25,262)
	<b>12,426</b>	17,533

The aged analysis of accounts receivable is as follows:

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Less than one month	<b>12,333</b>	17,451
Over one month but less than three months	<b>43</b>	26
Over three months	<b>25,150</b>	25,318
	<b>37,526</b>	42,795
Less: Allowance for doubtful debts	<b>(25,100)</b>	(25,262)
	<b>12,426</b>	17,533

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities are two days after trade date.

Receivable from margin clients are secured by margin clients' pledged securities, repayable on demand and bear interest with reference to commercial rates.

**11. Accounts Payable**

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Margin clients	1,398	1,969
Cash clients	43,585	64,810
Brokers, dealers and clearing houses	192	21
	<b>45,175</b>	<b>66,800</b>

There was no payable to Directors for transactions in securities as at 30 June 2005, and the age of accounts payable is less than one month.

**12. Loans Payable**

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Loans payable	58,084	58,084
Less: portion due within one year	<b>(58,084)</b>	<b>(58,084)</b>
Non-current portion due over one year but less than two years	—	—

Loans payable are unsecured and bear interest at 7% per annum for both periods.

### 13. Obligation under finance lease

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2005 HK\$'000	31 December 2004 HK\$'000	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Amount payable under finance lease				
Within one year	102	93	86	79
In the second to fifth year inclusive	305	365	257	307
	407	458		
Less: Future finance charges	(64)	(72)		
Present value of lease obligation	343	386	343	386
Less: Amount due for settlement within twelve months (shown under current liabilities)			(86)	(79)
Amount due for settlement after twelve months			257	307

It is the Group's policy to lease its motor vehicle under finance lease. The lease term is five years and the effective borrowing rate is 3.75%. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's and the Company's obligation under finance lease is secured by the lessor's charge over the leased assets.

**14. Share Capital**

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised: 2,000,000,000 shares	<b>400,000</b>	400,000
Issued and fully paid: 1,457,527,296 shares	<b>291,505</b>	291,505

**15. Reserves**

	<b>Share premium account HK\$'000</b>	<b>Asset revaluation reserve HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
As at 1 January 2004	30,797	2,650	(324,389)	(290,942)
Loss for the period	-	-	(6,768)	(6,768)
As at 30 June 2004 and 1 July 2004	30,797	2,650	(331,157)	(297,710)
Loss for the period	-	-	(14,362)	(14,362)
As at 31 December 2004	30,797	2,650	(345,519)	(312,072)
Loss for the period	-	-	(9,649)	(9,649)
As at 30 June 2005	30,797	2,650	(355,168)	(321,721)

## 16. Related Party Transactions

The following summarises the significant related party transactions.

- (a) The Group has granted the following related-party loans on 20 October 1998 to enable the borrowers to reduce the outstanding balances in their margin accounts. These loans are approved by shareholders in the extraordinary general meeting held on 23 July 1999 as required by the Listing Rules.

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Capital Limited	A wholly owned subsidiary, Mansion House Capital Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Partially secured by marketable securities and unlisted shares	Partially secured by marketable securities and unlisted shares
– repayment terms	By 14 equal instalments payable semi-annually with the last instalment due in May 2006	By 14 equal instalments payable semi-annually with the last instalment due in May 2006
Balance at 30 June 2005 (unaudited)	HK\$73,769,288	HK\$7,074,379
Balance at 31 December 2004 (audited)	HK\$73,769,288	HK\$7,074,379
Allowance at 30 June 2005	HK\$73,769,288	HK\$7,074,379

These loans were rescheduled in 1999 with the last instalment due in May 2006. However, the loans have been in default since 2000 and a total allowance of HK\$80,843,667 (2004: HK\$80,843,667) has been made.

- (b) The Group has also provided margin financing to the following related parties:

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Marketable securities	Marketable securities
Balance at 30 June 2005 (unaudited)	HK\$8,795,445	HK\$8,358,549
Balance at 31 December 2004 (audited)	HK\$8,795,445	HK\$8,411,913
Allowance at 30 June 2005	HK\$8,795,445	HK\$8,358,549

The loans are in default and a total allowance of HK\$17,153,994 (2004: HK\$17,153,994) has been made.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review & Outlook

The Group recorded a turnover of approximately HK\$1.95 million for the six months ended 30 June 2005 compared to the turnover of approximately HK\$3.22 million for the corresponding period in 2004. The basic and diluted loss per share for the six months ended 30 June 2005 was HK0.66 cents, compared with the basic and diluted loss per share of HK0.50 cents for the previous period. The drop in turnover was mainly attributable to the discontinuation of the trust management services during the period.

Keen competitions in the securities brokerage business still persist and the Group will continue to undertake strict cost control policy. The Group has implemented a series of strategies during the first half year to streamline its operations and structure.

Although the negotiation with the Group's single major creditor has taken longer than expected, the management is striving to finalise an arrangement with the creditor aiming to improve its liquidity position. The management has received positive affirmation from the Group's major shareholder, Asia TeleMedia Holdings Limited, that it will support the Group's potential diversification of business into the telecommunication sectors in the PRC upon a satisfactory arrangement being concluded with the creditor.

### Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2005, the Group had net current liabilities of approximately HK\$34,877,000 (31 December 2004: HK\$25,918,000) and had cash and cash equivalents of approximately HK\$5,457,000 (31 December 2004: HK\$33,618,000). During the period, the Group has not made any bank borrowings (31 December 2004: Nil).

The Group's gearing ratio is 1.32 as at 30 June 2005 as compared with 1.17 as at 31 December 2004. The gearing ratio is calculated by dividing total liabilities by total assets.

### Treasury Policies

The business activities of the Group are mainly funded by shareholders' fund and cash generated from operating activities.

Foreign currency risk should not be significant to the Group since substantial assets and liabilities are either denominated in Hong Kong dollars or Renminbi which were quite stable during the period. No financial instruments have been employed for hedging purposes by the Group.

The Group is not exposed to significant capital market risk as the Group does not have material equity investments.

### Material Acquisition and Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the period.

### Employees

As at 30 June 2005, the Group employed 23 (31 December 2004: 27) staff in Hong Kong. Remuneration is reviewed annually and a discretionary bonus will be declared based on the performance of the staff. Also, the share option scheme adopted by the Company in June 2002 (the "2002 Share Option Scheme") is in operation.

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 30 June 2005, the interests of each Director 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:

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

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of Shares held (long position)</b>	<b>% of the issued share capital</b>
Mr. LU Ruifeng	Held by controlled Corporations (Note)	731,889,808	50.21%

Note: 730,500,000 Shares are owned by China United Telecom Limited, 35% of the entire issued share capital of which is held by Asia TeleMedia Holdings Limited. 1,389,808 Shares are owned by Asia TeleMedia Holdings Limited. Asia TeleMedia Holdings Limited is a company beneficially owned by Mr. LU Ruifeng. Mr. LU Ruifeng was deemed, by virtue of the SFO, to be interested in 731,889,808 Shares in aggregate.

(b) *Share options*

<b>Name of Director</b>	<b>Maximum number of Shares over which options are exercisable</b>	<b>Exercise price HK\$</b>	<b>Exercise period</b>
Mr. LU Ruifeng	500,000	0.20	23/03/2005 to 22/03/2010
	500,000	0.20	23/03/2007 to 22/03/2010
Mr. YIU Hoi Ying	4,000,000	0.20	23/03/2005 to 22/03/2010
	4,000,000	0.20	23/03/2007 to 22/03/2010
Mr. LU Ning	500,000	0.20	23/03/2005 to 22/03/2010
	500,000	0.20	23/03/2007 to 22/03/2010
Mr. LI Chun	500,000	0.20	23/03/2005 to 22/03/2010
	500,000	0.20	23/03/2007 to 22/03/2010
Mr. LAU Hak Lap	500,000	0.20	23/03/2005 to 22/03/2010
	500,000	0.20	23/03/2007 to 22/03/2010

Save as disclosed above, as at 30 June 2005, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SHARE OPTION SCHEMES

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.

The following table discloses details of the Company's share options held by the Directors and employees of the Group and movements in such holdings during the period.

Name of Scheme	Date of grant	Exercise period	Exercise price HK\$	Outstanding as at 1.1.2005	Granted during the period	Lapsed during the period	Outstanding as at 30.6.2005
1998 Share Option Scheme							
<b>Employees</b>	1.3.2001	1.9.2001 – 31.8.2006	0.38	600,000	–	–	600,000
2002 Share Option Scheme							
<b>Directors</b>							
Mr. LU Ruifeng	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000
Mr. YIU Hoi Ying	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	4,000,000	–	4,000,000
		23.3.2007 – 22.3.2010	0.20	–	4,000,000	–	4,000,000
Mr. LU Ning	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000
Mr. LI Chun	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000
Mr. LAU Hak Lap	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000
<b>Employees</b>	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	9,999,000	–	9,999,000
		23.3.2007 – 22.3.2010	0.20	–	9,999,000	–	9,999,000
				–	31,998,000	–	31,998,000
				600,000	31,998,000	–	32,598,000

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, 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:

<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares held (long position)</b>	<b>% of the issued share capital</b>
China United Telecom Limited	Beneficial owner	730,500,000	50.12%
Asia TeleMedia Holdings Limited (Note 1)	Interest of controlled corporation	730,500,000	50.12%
	Beneficial owner	1,389,808	0.09%
Mr. LU Ruifeng (Note 2)	Interest of controlled corporations	731,889,808	50.21%
High Reach Assets Limited (Note 3)	Beneficial owner	197,500,000	13.55%
Mr. Evans Carrera LOWE (Note 4)	Interest of controlled corporations	255,780,387	17.55%
	Beneficial owner	33,320,804	2.29%

Notes:

1. Asia TeleMedia Holdings Limited owned 35% of the entire issued share capital of China United Telecom Limited, and was therefore deemed, by virtue of the SFO, to be interested in the 730,500,000 Shares held by China United Telecom Limited.
2. The entire issued share capital of Asia TeleMedia Holdings Limited was beneficially owned by Mr. LU Ruifeng. Mr. LU Ruifeng was deemed, by virtue of the SFO, to be interested in 731,889,808 Shares in aggregate.

3. The entire issued share capital of High Reach Assets Limited was beneficially owned by Mr. Evans Carrera LOWE.
4. Mr. Evans Carrera LOWE's interests in these Shares comprised 33,320,804 Shares registered under his name and 255,780,387 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, 9,374,800 Shares held through Supreme Grass Limited and 4,677,640 Shares held through Lowe Holdings Company Limited, Inc. Mr. Evans Carrera LOWE is deemed, by virtue of the SFO, to be interested in 289,101,191 Shares in aggregate, amounting to approximately 19.84% of the entire issued share capital of the Company.

Save as disclosed above, as at 30 June 2005, 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.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SHARES**

During the six months ended 30 June 2005, 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.

## **AUDIT COMMITTEE**

The Audit Committee met in September 2005 to review the system of internal control and its compliance, and the results of the Group for the six months ended 30 June 2005. 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.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the “Code”) throughout the half-year ended 30 June 2005, except with deviations from Code provisions A.2.1, A.4.1 and B.1 in respect of the separate role of chairman and chief executive officer, service term of non-executive directors and establishment of remuneration committee.

Under Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. At present, Mr. LU Ruifeng is the Chairman and the Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Board will continue to review the management structure, taking into consideration the nature and extent of the Group’s operation, and ensure a balance of power and authority at the Board level in accordance with the relevant principle of the Code.

Under Code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company’s annual general meetings in accordance with the Company’s Articles of Association. As at each annual general meeting one-third of the Directors (or such number as nearest to one-third) must retire as Directors by rotation, each of the non-executive directors is effectively appointed for a term of approximately three years.

Under Code provision B.1, a remuneration committee should be established to assist the Board to formulate and review the remuneration policy and the remuneration packages of directors and senior management of the Company. The Board established a remuneration committee in compliance with the Code in September 2005.

## MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules has been adopted as part of the Corporate Governance Code of the Company. Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months period ended 30 June 2005.

## ADVANCES TO ENTITIES

As at 30 June 2005, the amounts due from Dynamic Assets Limited ("DAL"), Pharmatech Management Limited ("PML") and Noblesse Ventures Inc. ("NVI") before and after allowance are summarised below.

	<b>DAL</b>	<b>PML</b>	<b>NVI</b>
	<b>before (after)</b>	<b>before (after)</b>	<b>before (after)</b>
	<b>allowance</b>	<b>allowance</b>	<b>allowance</b>
	HK\$	HK\$	HK\$
Margin loans (Note 1)	5,695,814 (Nil)	3,099,631 (Nil)	8,358,549 (Nil)
Other loans (Note 2)	45,491,023 (Nil)	28,278,265 (Nil)	7,074,379 (Nil)
Total loans	51,186,837 (Nil)	31,377,896 (Nil)	15,432,928 (Nil)

Notes:

- The amounts due result from share margin loans. A total allowance of HK\$17,153,994 has been made. Please refer to note 16 to the condensed 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 23 July 1999. A total allowance of HK\$80,843,667 has been made. Please refer to note 16 to the condensed financial statements for further details in relation to these loans.
3. Due to a consolidated deficiency in tangible assets of HK\$31.4 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.

By order of the Board

**LU Ruifeng**

*Chairman*

Hong Kong, 26 September 2005