

## Directors' Report

The Board of Directors of the Company (the "Board") presents its report together with the audited financial statements for the year ended 31st December, 2005.

### PRINCIPAL ACTIVITIES

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

### SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 18 to the financial statements.

### ASSOCIATE

Particulars of the Company's associate are set out in note 19 to the financial statements.

### RESULTS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 22.

### RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 25 and note 31 to the financial statements respectively.

### DISTRIBUTABLE RESERVES

As at 31st December, 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 a dividend for the year ended 31st December, 2005 (2004: Nil).

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 17 to the financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the financial statements.

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### SHARE OPTION SCHEMES

Upon the adoption of a share option scheme in June 2002 (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.

During the year, options in respect of 31,998,000 shares of the Company at a subscription price of HK\$0.20 per share were granted under the 2002 Share Option Scheme. None of such options were exercised, but options in respect of 966,000 shares of the Company have been lapsed during the year ended 31st December, 2005.

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 THE COMPANY'S LISTED SHARES

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

### MAJOR CUSTOMERS

For the year ended 31st December, 2005, less than 30% of the Group's revenue were attributable to the Group's five largest customers.

### 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 70.

# Directors' Report

## DIRECTORS

The directors of the Company (the "Directors") during the year and up to the date of this report were:

### **Executive directors:**

Mr. LU Ruifeng  
Mr. YIU Hoi Ying

### **Independent non-executive directors:**

Mr. LU Ning  
Mr. LI Chun  
Mr. LAU Hak Lap (appointed on 27th January, 2005)  
Ms. CHOW Ching Yi (resigned on 26th January, 2005)

In accordance with Article 103 of the Company's Articles of Association, Messrs. LI Chun and YIU Hoi Ying shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the 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' Report

### 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, 2005 or at any time during the year.

### DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st December, 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")

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> )	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.

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### DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (Continued)

#### (b) Share options

Name of Director	Maximum number of Shares over which options are exercisable	Exercise price HK\$	Exercise period
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 31st December, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December, 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:–

Name of shareholder	Nature of interest	Number of Shares held (long position)	% of the issued share capital
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 31st December, 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.

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### ADVANCES TO ENTITIES

As at 31st December, 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>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Margin loans (Note 1)	5,695,814	3,099,631	8,358,549
	(Nil)	(Nil)	(Nil)
Other loans (Note 2)	45,491,023	28,278,265	7,074,379
	(Nil)	(Nil)	(Nil)
Total loans	<u>51,186,837</u>	<u>31,377,896</u>	<u>15,432,928</u>
	(Nil)	(Nil)	(Nil)

#### 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\$44.2 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 continued the negotiation with its single individual creditor in connection with the settlement arrangement of a loan in the principal amount of approximately HK\$58 million 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.

### REMUNERATION POLICY

The primary goal of the remuneration policy of the Group is to attract, retain and motivate capable personnel by linking their remuneration with performance. The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 33 to the financial statements.

The remuneration of the Directors are determined on the basis of the Group's operating results, individual performance and comparable market statistics.

# Directors' Report

## 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, 2005. The audit committee comprises three members, Mr. LU Ning, Mr. LI Chun and Mr. LAU Hak Lap, all being independent non-executive directors of the Company.

## 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*

25th April, 2006