

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 30th June, 2003.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associates are set out in notes 16 and 17 to the financial statements.

## **RESERVES**

Movements in the reserves of the Company during the year are set out in note 25 to the financial statements.

## **RESULTS**

The results of the Group for the year ended 30th June, 2003 are set out in the consolidated income statement on page 20 of the annual report.

No dividend was paid during the year.

## **FINANCIAL SUMMARY**

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

## **SHARE CAPITAL AND CONVERTIBLE NOTES**

During the year, the Company issued and allotted 38,000,000 shares of HK\$0.01 each at HK\$0.09 to W-Phone, Inc. to acquire 422,222 new preference shares of US\$0.001 each of W-Phone, Inc..

The Company also issued and allotted 193,934,000 shares of HK\$0.01 at HK\$0.016 each and a convertible note of HK\$10,000,000 to an independent third party to provide general working capital to the Group.

## Directors' Report (continued)

### **SHARE CAPITAL AND CONVERTIBLE NOTES** (continued)

As a result of the exercise of share options, the Company further issued and allotted a total number of 79,200,000 shares of HK\$0.01 each at HK\$0.0135.

Details of these and other movements in the share capital and convertible notes of the Company during the year are set out in notes 23 and 26 to the financial statements, respectively.

### **PROPERTY, PLANT AND EQUIPMENT**

During the year, property, plant and equipment with an aggregate net book value of approximately HK\$7,115,000 were disposed of as a result of the disposal of certain subsidiaries.

Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 15 to the financial statements.

### **INVESTMENT PROPERTIES**

Details of the movements in investment properties are set out in note 14 to the financial statements.

### **PRINCIPAL SUBSIDIARIES AND ASSOCIATES**

During the year, the Group disposed of its entire interest in certain subsidiaries which are mainly engaged in the sales of health products and, manufacture and sales of electronic products.

Details of the Group's principal subsidiaries and associates as at 30th June, 2003 are set out in notes 16 and 17 to the financial statements.

## Directors' Report (continued)

### DIRECTORS

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

#### Executive directors:

Wong Kam Fu (*Chairman*)

Wong Hoi Keung (*Managing Director*) (appointed on 4th September, 2002)

Wang Zhao Bin

Lew Mon Hung

Chan Kwong On, Daniel (resigned on 4th September, 2002)

Wong Kam Wing (resigned on 30th January, 2003)

Zhao Hua (resigned on 28th April, 2003)

#### Independent non-executive directors:

Ha Ping

Lau Mun Chiu (appointed on 30th September, 2002)

Sum Mun Kid, Frederick (resigned on 30th September, 2002)

In accordance with clauses 91 and 99 of the Company's Bye-laws, Mr. Wang Zhao Bin and Ms. Ha Ping will retire and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive director is the period from the date of appointment up to his retirement by rotation as required by the Company's Bye-laws.

Mr. Wong Kam Fu had entered into a service contract with the Company on 14th June, 2000. He resigned as Managing Director and retained as the Chairman of the Company on 4th September, 2002.

Mr. Wong Hoi Keung has entered into a service contract with the Company on 4th September, 2002 as the Managing Director of the Company.

Other than as disclosed above, no director being proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30th June, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## Directors' Report (continued)

### DIRECTORS' INTERESTS

At 30th June, 2003, the interests and short positions of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, 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, were as follows:

#### Long positions in shares and share options of the Company

(a) Ordinary shares of HK\$0.01 each

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Wong Kam Fu	Held by controlled corporations ( <i>note</i> )	1,683,991,543	31.13%
	Beneficial owner	19,000,000	0.35%
Wong Hoi Keung	Beneficial owner	1,702,991,543	31.48%
		6,000,000	0.11%
		<b>1,708,991,543</b>	<b>31.59%</b>

(b) Share options

Name of directors	Capacity	Number of options held	Number of shares underlying
Wong Kam Fu	Beneficial owner	103,018,750	103,018,750
Wong Hoi Keung	Beneficial owner	122,000,000	122,000,000
Lew Mon Hung	Beneficial owner	10,000,000	10,000,000
Wang Zhao Bin	Beneficial owner	82,000,000	82,000,000
		<b>317,018,750</b>	<b>317,018,750</b>

*Note:* 1,678,516,543 shares were beneficially owned by Sheung Hai Developments Limited ("Sheung Hai") and 5,475,000 shares were beneficially owned by Super Biotech Enterprises Limited ("Super Biotech"). The entire share capital of both companies is beneficially owned by Wong Kam Fu.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2003.

# Directors' Report (continued)

## DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Particulars of the share option scheme of the Company are set out in note 24 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Name of director/ former director*	Exercisable period	Exercise price	Number of share options				Outstanding at 30.6.2003
			Outstanding at 1.7.2002	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	
		HK\$				(note 5)	
Wong Kam Fu	21.2.2001-20.2.2003	1.5368	2,500,000	-	-	(2,500,000)	-
	30.4.2001-29.4.2003	0.652	1,250,000	-	-	(1,250,000)	-
	7.5.2001-6.5.2003	0.672	3,200,000	-	-	(3,200,000)	-
	2.8.2001-1.8.2004	0.4	3,018,750	-	-	-	3,018,750
	30.10.2002-29.10.2004 (note 1)	0.0386	-	100,000,000	-	-	100,000,000
	7.5.2003-6.5.2005 (note 3)	0.0135	-	19,000,000	(19,000,000)	-	-
Wong Hoi Keung	30.10.2002-29.10.2004 (note 1)	0.0386	-	100,000,000	-	-	100,000,000
	7.5.2003-6.5.2005 (note 3)	0.0135	-	28,000,000	(6,000,000)	-	22,000,000
Wang Zhao Bin	21.2.2001-20.2.2003	1.5368	500,000	-	-	(500,000)	-
	6.5.2001-5.5.2003	0.652	250,000	-	-	(250,000)	-
	30.10.2002-29.10.2004 (note 1)	0.0386	-	52,000,000	-	-	52,000,000
	2.11.2002-1.11.2004 (note 2)	0.0366	-	30,000,000	-	-	30,000,000
Lew Mon Hung	30.10.2002-29.10.2004 (note 1)	0.0386	-	10,000,000	-	-	10,000,000
Wong Kam Wing* (resigned)	18.11.2001-17.11.2003	0.4	5,000,000	-	-	(5,000,000)	-
	30.10.2002-29.10.2004 (note 1)	0.0386	-	100,000,000	-	(100,000,000)	-
Zhao Hua* (resigned)	21.2.2001-20.2.2003	1.5368	450,000	-	-	(450,000)	-
	11.5.2001-10.5.2003	0.652	250,000	-	-	(250,000)	-
	30.10.2002-29.10.2004 (note 1)	0.0386	-	52,000,000	-	(52,000,000)	-
	2.11.2002-1.11.2004 (note 2)	0.0366	-	30,000,000	-	(30,000,000)	-
Chan Kwong On, Daniel * (resigned)	21.2.2001-20.2.2003	1.5368	250,000	-	-	(250,000)	-
	30.4.2001-29.4.2003	0.652	1,000,000	-	-	(1,000,000)	-
Total for directors			17,668,750	521,000,000	(25,000,000)	(196,650,000)	317,018,750
Employees	21.2.2001-5.3.2003 (note 4)	1.5368	2,400,000	-	-	(2,400,000)	-
	30.4.2001-27.5.2003 (note 4)	0.652	925,000	-	-	(925,000)	-
	18.11.2001-17.11.2003	0.4	2,500,000	-	-	-	2,500,000
	2.8.2001-1.8.2004	0.4	256,250	-	-	-	256,250
	1.9.2001-31.8.2004	0.4	100,000	-	-	-	100,000
	30.10.2002-29.10.2004 (note 1)	0.0386	-	13,500,000	-	-	13,500,000
	7.5.2003-6.5.2005 (note 3)	0.0135	-	66,000,000	(54,200,000)	-	11,800,000
Total for employees			6,181,250	79,500,000	(54,200,000)	(3,325,000)	28,156,250
Total for the Scheme			23,850,000	600,500,000	(79,200,000)	(199,975,000)	345,175,000

## Directors' Report (continued)

### **DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURE** (continued)

*Notes:*

1. As at 29th October, 2002, the date before 427,500,000 options with an exercise price of HK\$0.0386 were granted, the closing price per share of the Company was HK\$0.049.
2. As at 1st November, 2002, the date before 60,000,000 options with an exercise price of HK\$0.0366 were granted, the closing price per share of the Company was HK\$0.042.
3. As at 6th May, 2003, the date before 113,000,000 options with an exercise price of HK\$0.0135 were granted, the closing price per share of the Company was HK\$0.017.
4. The exercisable periods for the share options granted to employees are longer than those granted to directors/former directors as certain grantee of the options accepted the options on different dates.
5. The weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were exercised was HK\$0.017.

### **Valuation of Share Options**

Since the application of the Black-Scholes Option Price Model and the Binomial Model is based on a number of variables that are either theoretical, speculative or difficult to be ascertained, the directors of the Company believe that valuation of the options calculated on such basis would not be meaningful to existing or potential shareholders. Accordingly, the fair value of share options is not disclosed in the annual report.

No charge is recognised in the income statement in respect of the value of options granted during the year.

### **CONNECTED TRANSACTION**

During the year, the Company entered into the Subscription Agreement with Ming Yuen Assets Limited ("Ming Yuen") on 26th September, 2002 whereby Ming Yuen agreed to issue and the Company agreed to subscribe a 30% equity interest in Ming Yuen for a consideration of HK\$30,000,000 payable by the issue of a promissory note by the Company. The promissory note bears interest at 2% per annum and is payable on 17th September, 2004.

Ming Yuen was 100% beneficially owned by Mr. Wong Kam Fu who is the chairman, executive director and substantial shareholder of the Company.

On 26th September, 2002, the Company entered into the Patent Licence Agreement with Ming Yuen whereby Ming Yuen agreed to grant an exclusive licence to the Company for the commercial application in Hong Kong and the Mainland China of the technologies and processes associated with the patents of DNA security system. The Company will pay or accrue to Ming Yuen royalties equivalent to 15% of gross revenue received by the Company using the patents.

## Directors' Report (continued)

### **CONNECTED TRANSACTION** (continued)

The above transaction constituted an ongoing connected transaction (the "Ongoing Connected Transaction") of the Company, the Stock Exchange granted a waiver to the Company from strict compliance with the disclosure and shareholders' approval requirements under Rule 14.26 regarding the Ongoing Connected Transaction on each occasion they arise.

In connection with the Ongoing Connected Transaction and pursuant to the waiver granted by the Stock Exchange on 8th October, 2003, the Ongoing Connected Transaction has been reviewed by the directors of the Company (including independent non-executive directors). The directors (including independent non-executive directors) of the Company have confirmed that the Ongoing Connected Transaction has been entered into or the terms of the respective agreement governing such Ongoing Connected Transaction are (a) in the ordinary and usual course of the business of the Group; (b) conducted either on normal commercial terms, or where there is no available comparison, on terms that are fair and reasonable so far as the Independent Shareholders are connected; (c) in accordance with terms of the Patent Licence Agreement; and (d) the aggregate amount of royalties payable to Ming Yuen is within the cap limit of HK\$8.4 million.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' Report (continued)

### SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

#### Long positions in shares of the Company

(a) Ordinary shares of HK\$0.01 each

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Wong Kam Fu	Beneficial owner	19,000,000	0.35%
	Held by controlled corporations (note 1)	1,683,991,543	31.13%
Chim Pui Chung	Held by controlled corporation (note 2)	1,702,991,543	31.48%
		1,993,192,348	36.85%
		<b>3,696,183,891</b>	<b>68.33%</b>

#### Notes:

- 1,678,516,543 shares and 5,475,000 were beneficially owned by Sheung Hai and Super Biotech respectively. The entire share capital of both companies is beneficially held by Mr. Wong Kam Fu.
- 1,993,192,348 shares were beneficially owned by Win Channel Investments Limited ("Win Channel"). The entire share capital of Win Channel is beneficially held by Chim Pui Chung.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2003.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th June, 2003, the five largest customers accounted for less than 30% of the Group's turnover, while the largest and five largest suppliers accounted for 13% and 37% of the Group's purchases, respectively.

During the year, none of the directors, their associates or shareholders, which to the knowledge of the directors own more than 5% of the Company's issued share capital, have any interests in the above customers.



## Directors' Report (continued)

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 30th June, 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### **POST BALANCE SHEET EVENTS**

Details of significant post balance sheet events are set out in note 33 to the financial statements.

### **AUDITORS**

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

### **WONG KAM FU**

*Chairman*

Hong Kong, 28th October, 2003