

## REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries during the year consisted of manufacture and sale of electronic components, manufacture and sale of contact and contactless smart card readers and related products, general trading, property holding and investment holding.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 61. No interim dividend was paid during the year (2002: Nil) and the Board does not recommend the payment of a final dividend in respect of the year (2002: Nil).

### SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>Results</b>					
Turnover	<b>248,373</b>	136,427	78,697	1,774,546	4,139,174
Profit/(loss) before taxation	<b>12,947</b>	(207,380)	(132,545)	(325,197)	(602,304)
Taxation	<b>2,341</b>	1,039	(718)	(124)	(10,435)
Profit/(loss) before minority interests	<b>15,288</b>	(206,341)	(133,263)	(325,321)	(612,739)
Minority interests	<b>(4,429)</b>	13,397	(24)	378	1,246
Net profit/(loss) attributable to shareholders	<b>10,859</b>	(192,944)	(133,287)	(324,943)	(611,493)

	31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>Assets and liabilities</b>					
Properties, plant and equipment	9,859	5,475	7,841	20,633	372,363
Investment properties	18,000	31,200	14,200	24,810	32,558
Long term investments	56,712	50,394	70,031	–	–
Interests in associates	48,400	33,058	163,593	180,264	75
Goodwill	10,197	–	–	–	–
Current assets	<u>127,352</u>	<u>111,123</u>	<u>606,651</u>	<u>694,466</u>	<u>1,436,417</u>
Total assets	<u>270,520</u>	<u>231,250</u>	<u>862,316</u>	<u>920,173</u>	<u>1,841,413</u>
Current liabilities	(63,437)	(68,130)	(633,121)	(574,576)	(1,245,314)
Deferred tax	(85)	–	(1,302)	(2,069)	(9,230)
Minority interests	<u>(37,808)</u>	<u>(31,070)</u>	<u>(309)</u>	<u>(309)</u>	<u>(10,530)</u>
Total liabilities and minority interests	<u>(101,330)</u>	<u>(99,200)</u>	<u>(634,732)</u>	<u>(576,954)</u>	<u>(1,265,074)</u>
Net assets	<u>169,190</u>	<u>132,050</u>	<u>227,584</u>	<u>343,219</u>	<u>576,339</u>

## ACCOUNTING POLICIES

The principal accounting policies of the Group are set out in note 2 to the financial statements.

## PROPERTIES, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the properties, plant and equipment and investment properties of the Group during the year are set out in notes 12 and 13 to the financial statements, respectively.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries at the balance sheet date are set out in note 15 to the financial statements.

## ASSOCIATES

Particulars of the Group's principal associates at the balance sheet date are set out in note 17 to the financial statements.

### BANK BORROWINGS

Details of the Group's bank borrowings at the balance sheet date are set out in note 22 to the financial statements.

### SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 24 to the financial statements.

### 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.

### RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

### DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's share premium account, in the amount of HK\$73,386,000 (2002: HK\$46,317,000), was available to be distributed in the form of fully paid bonus shares. At 31 December 2003, the Company had contributed surplus and accumulated losses of HK\$125,376,000 and HK\$19,811,000, respectively (2002: HK\$125,376,000 and HK\$31,046,000, respectively). Details of movements in the distributable reserves of the Company are set out in note 25 to the financial statements.

### SUBSEQUENT EVENTS

Details of subsequent events relating to the Group are set out in note 29 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003:

- (i) the aggregate amount of turnover attributable to the five largest customers represented 33.2% of the Group's total turnover. Sales to the largest customer amounted to 15.0% of the Group's total turnover; and

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- (ii) the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the five largest suppliers represented 35.4% of the Group's total purchases. Purchases from the largest supplier amounted to 16.6% of the Group's total purchases.

None of the Directors of the Company or any of their associates or any other shareholders, which to the best knowledge of the Company's Directors, owned more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or suppliers.

### DIRECTORS

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

	<b>Appointed</b>	<b>Resigned</b>
Shaw Wen Fei*		
Lui Chun Bing, Tommy		
Au Hoi Tsun, Peter		
Hui Tung Wah, Samuel		28 May 2003
Sung Yan Wai, Petrus	24 March 2003	
Leung Man Kwan, Francis	4 March 2003	9 June 2003
Chim Chun Kwan, Sandy		
Lee Hoong Seun	9 June 2003	
Wong Che Keung, Richard**		
Tong Yee Yung, Joseph**		
Huen Wing Ming, Patrick		21 March 2003
Lau Ho Kit, Ivan		28 February 2003

\* Non-executive Director

\*\* Independent non-executive Directors

In accordance with Bye-Law 89 of the Company's Bye-Laws, Mr. Lee Hoong Seun will retire, and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-Law 97 of the Company's Bye-Laws, Messrs. Au Hoi Tsun, Peter and Chim Chun Kwan, Sandy will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2003, the interests and short positions of the Directors, Chief Executive of the Company and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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 Issuers, were as follows:

#### Long positions in the shares of the Company

Name of Director	Capacity/ Nature of interests	Number of shares held	Notes	Percentage of holding (%)
Shaw Wen Fei	Interest in controlled corporation	1,064,900	1	1.43
Lui Chun Bing, Tommy	Beneficial owner	806,800		1.09
	Interest of child under 18 or spouse	3,000,000	2	4.04
Au Hoi Tsun, Peter	Beneficial owner	345,000		0.46

*Notes:*

- (1) These shares were held by Sharp States Investments Inc., the entire issued share capital of which was wholly-owned by Mr. Shaw Wen Fei.
- (2) These shares were held by Expert View Group Limited, a corresponding interest of 66.67% and 33.33% of the issued share capital of which was beneficially owned by Ms. Sum Kin Man and Mr. Lui Tin Shun, wife and son of Mr. Lui Chun Bing, Tommy respectively.

The interests of the Directors in the share option of the Company are separately disclosed under the heading "Share Option Scheme".

Save as disclosed above, none of the Directors, Chief Executive of the Company and their associates had registered an interest or short positions in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to 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 Issuers.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the heading "Directors' Interests and Short Positions in Shares" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### SHARE OPTION SCHEME

On 22 March 2002, ordinary resolutions were passed by shareholders at the Special General Meeting to approve the adoption of a New Share Option Scheme (the "Scheme") in order to comply with Chapter 17 of the Listing Rules, and the termination of the old share option scheme which was approved and adopted on 23 May 1997.

#### 1. Summary of the Scheme

The purpose of the Scheme is to enable the Company to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors of the Company or any of its subsidiaries) and any suppliers, consultants, advisers, agents, shareholders, customers, partners or business associates, who at the discretion of the Board, have contributed to the Company or any of its subsidiaries as incentives and rewards for their contributions to the Company or such subsidiaries. The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company must not exceed 10% of the shares in issue on the date of approval and adoption of the Scheme, i.e. 454,367,682 shares and 4,543,676 shares after share consolidation of the Company effective 2 December 2002. The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme(s) of the Company to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

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The exercise price shall be determined by the Board save that the price will not be less than the highest of (a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company.

There is no general requirement that an option must be held for any minimum period before it can be exercised, but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The date of grant of any particular option is the date when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration is received by the Company, such date must be on or before the 30th day after the option is offered to the relevant grantee. The Scheme is valid and effective for a period of 10 years after the date of adoption of the Scheme, which is until 21 March 2012.

### 2. Outstanding options

The following show the particulars of the share options of the Company granted to Directors of the Company and employees of the Group that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1) (b) of Appendix 16 of the Listing Rules:

Participants	Number of share options granted during the year*	Number of share options exercised during the year	Number of share options lapsed during the year	Outstanding as at 31 December 2003	Exercise price (HK\$)	Exercise period
<b>Directors</b>						
Shaw Wen Fei	600,000	-	-	600,000	1.14	15/7/2003 – 14/7/2008
Lui Chun Bing, Tommy	600,000	-	-	600,000	1.14	15/7/2003 – 14/7/2008
Au Hoi Tsun, Peter	450,000	-	-	450,000	1.14	15/7/2003 – 14/7/2008
Lee Hoong Seun	200,000	-	-	200,000	1.14	15/7/2003 – 14/7/2008
Sung Yan Wai, Petrus	200,000	-	-	200,000	1.14	15/7/2003 – 14/7/2008
Chim Chun Kwan, Sandy	200,000	-	-	200,000	1.14	15/7/2003 – 14/7/2008
Wong Che Keung, Richard	60,000	-	-	60,000	1.14	15/7/2003 – 14/7/2008
Tong Yee Yung, Joseph	60,000	-	-	60,000	1.14	15/7/2003 – 14/7/2008
<b>Employees</b>						
Total employees	430,000	-	80,000	350,000	1.14	15/7/2003 – 14/7/2008
Total:	2,800,000	-	80,000	2,720,000		

\* The date of grant was 15 July 2003.

**3. Valuation of share options**

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The Directors do not consider it appropriate to disclose a theoretical value for the share options granted during the year to the Directors and members of senior management and other employees of the Group, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the Directors were unable to arrive at an accurate assessment of the value of these share options.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and no Directors or Chief Executive of the Company or their respective spouses or children under 18 years of age had been granted any right to subscribe for equity or debt securities of the Company nor exercised any such right.

**DIRECTORS' INTERESTS IN CONTRACTS**

No Director had a significant beneficial interest in any material contract to which the Company, its holding companies or any of its subsidiaries was a party during the year.

**AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two Independent non-executive Directors of the Company.



**SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES**

As at 31 December 2003, other than the interests disclosed in the section headed "Directors' Interests and Short Positions in Shares" above, the following interests and short positions of 5% or more in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

**Long positions in the shares of the Company**

Name of shareholder	Capacity/ Nature of interests	Number of shares held	Notes	Percentage of holding (%)
The Grande (Nominees) Limited	Beneficial owner	6,571,795		8.85
The Grande Holdings Limited	Interest in controlled corporation	6,571,795	1a	8.85
Barrican Investments Corporation	Interest in controlled corporation	6,571,795	1b	8.85
The Grande International Holdings Limited	Interest in controlled corporation	6,571,795	1c	8.85
Ho Wing On, Christopher	Interest in controlled corporation	6,571,795	1d	8.85
Planet Adventure Limited	Beneficial owner	6,200,000	2a	8.35
Huen Wing Ming, Patrick	Interest in controlled corporation	6,300,000	2b	8.48

*Notes:*

- (1a) The Grande (Nominees) Limited was a wholly-owned subsidiary of The Grande Holdings Limited.
- (1b) Barrican Investments Corporation held a controlling interest in the capital of The Grande Holdings Limited.
- (1c) Barrican Investments Corporation was a wholly-owned subsidiary of The Grande International Holdings Limited.
- (1d) The Grande International Holdings Limited was wholly-owned by Mr. Ho Wing On, Christopher.
- (2a) Planet Adventure Limited was wholly-owned by Mr. Huen Wing Ming, Patrick.
- (2b) 6,200,000 shares were held by Planet Adventure Limited and 100,000 shares were held by Patova International Limited which was wholly-owned by Mr. Huen Wing Ming, Patrick.

Save as disclosed above, the Directors are not aware of any other persons who have interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which would fall to be disclosed to the Company pursuant to section 336 of the SFO.

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

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

## **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 of the Stock Exchange throughout the year. Independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-Laws.

## **AUDITORS**

Moore Stephens retire and being eligible, offer themselves for re-appointment. A resolution for the reappointment of Moore Stephens as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On Behalf of the Board

**Shaw Wen Fei**

*Chairman*

Hong Kong, 26 March 2004