

## REVIEW OF OPERATIONS

For the six months ended 30 June 2004 (the "Current Period"), the Group made a profit before tax and minority interests of HK\$6,084,000 compared with HK\$5,833,000 for the same period last year, an increase of 4.3%. However, net profit attributable to shareholders decreased from HK\$6,849,000 for last year to HK\$5,042,000, a decrease of 26%. A key factor was a non-recurring tax credit of HK\$2,982,000 recorded by the Group's 51.56% subsidiary, Omnitech Holdings Limited ("OHL"), in 2003.

Total turnover of the Group amounted to HK\$64,693,000, a decrease of 34% compared with the turnover of HK\$98,007,000 for the same period last year. The decrease in turnover was mainly attributable to the drop in the import and export business of the Group resulting from more cautious trading strategy.

Gross margin, however, improved from 11.9% in 2003 to 18.4% in the Current Period. The increase was mainly due to a higher contribution from our contactless smart card division, VFJ Technology and a lower contribution from our low margin trading business.

The Group's share of the results of associates also increased from HK\$639,000 in 2003 to HK\$1,626,000 in 2004 due to better performance achieved by the Group's associates.

Shareholders' funds as at 30 June 2004 amounted to HK\$174,237,000 or HK\$2.35 per share.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has continued to adopt prudent financial policies.

The Group's current assets and current liabilities as at 30 June 2004 were HK\$154,487,000 and HK\$70,657,000, respectively (31 December 2003: HK\$127,352,000 and HK\$63,437,000 respectively). As at 30 June 2004, the Group had cash and bank deposits of approximately HK\$25,527,000 (31 December 2003: HK\$31,203,000), and short-term bank borrowings of HK\$47,555,000 (31 December 2003: HK\$39,390,000).

As at 30 June 2004, the Group's gearing ratio, which was calculated on the basis of bank borrowings to net asset value, was 27% (31 December 2003: 23%).

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (continued)**

The Group mainly operates its business transactions in Hong Kong dollars, United States dollars and Renminbi with certain short-term investments in equity securities denominated in Australian dollars. The exchange rates of United States dollars, Renminbi and Australian dollars against Hong Kong dollars were relatively stable during the Current Period. Overall, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations. During the Current Period, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 30 June 2004.

## **PROSPECTS**

The Group has continued to consolidate its business and maintain a prudent financial policies. The Board believes that the Group has reached a position to embark on further expansion, particularly due to the business opportunities presented in China.

As announced in July 2004, OHL is planning to expand its capital through the Australian stock market, to fund further expansion of its manufacturing operation in China.

The Group has entered into an agreement, as announced on 26 August 2004, to acquire a 51.52% interest in Windsor Treasure Group Holdings Limited ("WTG"), a home furniture business in China. Upon completion of the acquisition, which is scheduled to take place in October 2004, the Group will be able to capture the exciting prospects of both the domestic and export furniture market in China through the acquisition of WTG. More details of the acquisition are contained in a circular sent to the shareholders on 17 September 2004.

## **INTERIM DIVIDEND**

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend in respect of the Current Period (2003: Nil).

## **EMPLOYEES**

As at 30 June 2004, the Group employed approximately 990 employees, out of which approximately 930 were production workers in PRC. In addition to the provision of annual bonuses, medical insurance and in-house and external training programs, discretionary bonuses and share options are also available to employees based on their performance. The remuneration policy and packages of the Group are reviewed from time to time.