

# REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. It provides corporate management services to its group companies. The activities of the Company's principal subsidiaries are set out in note 14 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 27.

The directors have declared an interim dividend of 5 HK cents per ordinary share, totalling HK\$20,032,000, which was paid on 24 September 2004.

The directors recommend the payment of a final dividend of 5 HK cents per ordinary share for the year.

## RESERVES

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

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$276,000.

## FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in note 12 to the financial statements.

## MAJOR PROPERTIES

Details of the major properties held for development or sale are set out on page 80.

## SHARE CAPITAL

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

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## DISTRIBUTABLE RESERVES

Distributable reserves of the company at 31 December 2004 is calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$340,919,000 (2003: HK\$211,045,000), of which HK\$20,032,000 has been proposed as a final dividend for the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's New Bye-laws and there was no restriction against such rights under the laws of Bermuda.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on pages 79.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## BORROWINGS AND INTEREST CAPITALISED

Analysis of the maturity of bank loans and other loans are set out in note 26 to the financial statements.

Interest capitalised by the Group during the year is nil (2003: HK\$2,771,000) in respect of properties under development and properties under development for sale.

## SHARE OPTION SCHEME

At 31 December 2004, there was no share option scheme adopted by the Company.

At no time during the year was the Company or any of its associated corporation a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporation.

## DIRECTORS

The directors during the year were:

### Executive Directors

Mr. Fung Ka Pun *(Executive Co-chairman)*

Dato' Wong Sin Just *(Executive Co-chairman)*

### Independent Non-executive Directors

Mr. Ongpin Roberto V.

Mr. Chung Cho Yee, Mico

Mr. Ho Kwan Tat (appointed on 30 September 2004)

Dr. Hui Ka Wah, Ronnie (appointed on 30 September 2004)

In accordance with clause 87 of the Company's New Bye-laws, all remaining directors retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

The term of office for Independent Non-executive Directors of the Company are subject to retirement and re-election at the annual general meeting in accordance with the Company's New Bye-laws.

The Company has received annual confirmation of independence from Mr. Ongpin Roberto V., Mr. Chung Cho Yee, Mico, Mr. Ho Kwan Tat and Dr. Hui Ka Wah, Ronnie and considered them as independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 3 to 5 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in the section "Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION

As at 31 December 2004, the interests of each Director and Chief Executive and their associates in the shares of the Company and any of its associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO and as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

Name of director	Number of ordinary shares of the Company held - long positions	
	Personal interests	Corporate interests
Mr. Fung Ka Pun	3,640,197	106,018,484 (Note 1)
Dato' Wong Sin Just	—	104,335,000 (Note 2)

Name of associated corporation	Name of director	Number of ordinary shares of the associated corporation held - long positions	
		Personal interests	Deemed interests
SBI E2-Capital Limited	Dato' Wong Sin Just	6	— (Note 3)
Boxmore Limited	Mr. Fung Ka Pun	—	1,477,880 (Note 4)
Winpac Enterprises Limited	Mr. Fung Ka Pun	—	50,000 (Note 5)

Notes:

- (1) Mr. Fung Ka Pun has beneficial interests in Bo Hing Limited and Goodwill International (Holdings) Limited ("Goodwill International"), which were interested in 1,862,303 shares and 104,156,181 shares in the Company respectively as at 31 December 2004, representing approximately 26.46% in the issued share capital of the Company. Goodwill International is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders' Interests and Short Positions in the Shares of the Company".
- (2) Dato' Wong Sin Just has beneficial interests in e2-Capital Inc., which was interested in 104,335,000 shares in the Company as at 31 December 2004, representing approximately 26.04% in the issued share capital of the Company. e2-Capital Inc. is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders' Interests and Short Positions in the Shares of the Company".
- (3) Dato' Wong Sin Just holds 6 shares, representing approximately 2% in the issued share capital of SBI E2-Capital Limited.
- (4) The spouse of Mr. Fung Ka Pun has beneficial interest in 1,477,880 shares, representing 20% in the issued share capital of Boxmore Limited.
- (5) The spouse of Mr. Fung Ka Pun holds 50,000 shares, representing 5% in the issued share capital of Winpac Enterprises Limited.

Other than as disclosed above, as at 31 December 2004, none of the Directors and Chief Executive and their associates had any other interests in shares in, or debentures of, the Company or any of its associated corporations which had been entered in the register maintained by the Company under Section 352 of the SFO.

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## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 31 December 2004, the following entities have interests and short positions of 5% or more of the issued shares of the Company which were recorded in the Register of Substantial Shareholders maintained under Section 336 of the SFO or had otherwise notified to the Company:

Name of shareholder	Number of ordinary shares - long positions	Capacity	Percentage of issued share capital	Remarks
e2-Capital Inc.	104,335,000	Beneficial owner	26.04	} Duplication of e2-Capital Inc.'s holding
Coutts (Cayman) Limited	104,335,000	Trustee	26.04	
Goodwill International	104,156,181	Beneficial owner	26.00	
Kua Phek Long	25,376,750	Beneficial owner	6.33	
Softbank Investment International (Strategic) Limited	22,750,000	Beneficial owner	5.68	
Strategic Capital Holdings Limited	22,722,000	Beneficial owner	5.67	
Newmark Capital Corporation Limited	44,620,588	Beneficial owner (Note 1)	11.13	
Newmark Capital Holdings Limited	44,620,588	Interest of controlled corporation (Note 1)	11.13	} Duplication of Newmark Capital Corporation Limited's holding
Ng Poh Meng	44,620,588	Interest of controlled corporation (Note 1)	11.13	

Saved as disclosed above, as at 31 December 2004, the Company has not been notified by any persons (other than Directors or Chief Executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which were recorded in the Register of Substantial Shareholders maintained under Section 336 of the SFO.

Note :

(1) Newmark Capital Corporation Limited, which has a direct interest in 44,620,588 shares representing approximately 11.13% of the issued share capital of the Company, is wholly-owned by Newmark Capital Holdings Limited. Newmark Capital Holdings Limited is wholly-owned by Mr. Ng Poh Meng.

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## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2004, the Group has entered into the following transactions which constituted connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

At the Special General Meeting on 16 December 2004, independent shareholders approval has been obtained regarding the provision of the following corporate guarantees:

- 1) On 17 December 2004 the Company executed the guarantee in favour of a financial institution in the sum of HK\$143 million plus interest and charges in respect of the granting of certain banking facilities to three affiliated companies namely, SBI E2-Capital Securities Limited, SBI E2-Capital Brokerage Limited and SBI E2-Capital Commodities Limited (hereafter collectively refer as "Affiliated Companies") in relation to facilitate the general working capital and the business needs of the Affiliated Companies.

Default interest shall be payable by the Company on the guaranteed amount or part thereof (to the extent that it is not paid by the Company to the authorised institution on demand), and the default interest shall be at such rate as may be specified by the financial institution, compounded monthly, if not paid on the date specified by the financial institution and shall accrue from the date of demand by the financial institution on the Company until full settlement of the guarantee amount. It is a continuing security and the financial institution can exercise a lien over all property of the Company to satisfy the guaranteed amount.

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Since the Company beneficially owns 34.3% equity interests in each of the Affiliated Companies but it alone would take up full liability under the guarantee, the other shareholders of the Affiliated Companies namely, Softbank Investment International (Strategic) Limited, Dato' Wong and SBI E2-Capital China Employees Limited had given three Counter-indemnities on a several basis, with all of which in substantially the same terms, to the Company, with their liabilities in the same proportion as their respective equity interests in each of the Affiliated Companies plus any interest and expenses, to cover the Company's additional liabilities in the event of any actual loss suffered or amount paid out by the Company in connection with the lawful performance of its obligations under the guarantee.

The provision of the guarantee constituted a connected transaction of the Company under Rule 14A.13(3) of the Listing Rules as it was for the benefit of a connected person, Dato' Wong, albeit indirectly, as being a Director of the Company and indirectly holds beneficial interest of approximately 26.04% of the entire issued capital in the Company.

The Counter-indemnity provided by Dato' Wong to the company was an exempted connected transaction under Rule 14A.65(4) since the provision of the Counter-indemnity was for the benefit of the Company on normal commercial terms where no security over assets of the listed issuer is granted in respect of the Counter-indemnity.

- 2) The Company will provide guarantees to four financial institutions in relation to the provision of certain banking facilities to A-Max Technology Company Limited ("A-Max Technology") up to an aggregate amount of HK\$146.8 million of which a corporate guarantee in the sum of HK\$33 million had been executed on 31 August 2004. Details of the provision of the corporate guarantee in the sum of HK\$33 million are set out in the section headed "Disclosure pursuant to Rule 13.20 of the Listing Rules".

The Directors of the Group decided to extend the Group's business activities into digital consumer products market as part of the Group's future business direction. In this regard, the provision of the corporate guarantees in favour of the financial institutions in respect of the granting of certain banking facilities to A-Max Technology could foster closer business relationship and open more business opportunities with an emerging company in the consumer electronics industry to facilitate the Company to acquire the necessary skills and business knowledge in its diversification plan.

Since Mr. Fung Ka Pun ("Mr Fung"), Dato' Wong and Mr. Lawrence Yu Kam Kee, each holds 892 ordinary shares in the ultimate holding company of A-Max Technology namely A-Max Technology Limited ("A-Max Bermuda"), which in total representing 17.8% of the total issued share capital, through their wholly owned subsidiaries namely Lucktime Management Limited, Allied Knight Finance Limited and Brilliant Elite Limited respectively. Both Mr. Fung and Dato' Wong are directors and substantial shareholders of the Company and Mr. Lawrence Yu Kam Kee is a director of a subsidiary of the Company, therefore they are connected persons of the Company under the Listing Rules. Accordingly, the provision of the guarantee(s) by the Company to A-Max Technology constituted a connected transaction to the Company pursuant to Rule 14A.13(3) of the Listing Rules as it was for the benefit for any or all of the connected persons of the Company.

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## DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

As stated in the earlier section headed "Connected Transactions" on 31 August 2004, the Company executed a corporate guarantee in favour of a financial institution in sum of HK\$33 million in respect of the granting of certain banking facilities to A-Max Technology. Details of the relevant guarantee are set out as follow:

The provision of the corporate guarantee in favour of a financial institution for granting certain banking facilities to A-Max Technology involved US\$6,000,000 documentary credit to the A-Max Technology's suppliers and import loan facilities in either Hong Kong dollars or foreign currency up to 100 days, less any usance/credit periods granted by the A-Max Technology's suppliers, within which goods under their control and/or trust receipts up to 100 days.

Interest on the import loans will continue to be charged at Hong Kong Interbank Offered Rate or Singapore Interbank Offered Rate on the respective currencies plus a margin of 1.5% per annum, payable on the maturity/roll over rate of each interest period/drawing to the debit of the A-Max Technology's accounts.

The Company, as guarantor, guaranteed to pay the guaranteed moneys to the financial institution on demand.

The liability of the Company under the Guarantee shall not exceed the maximum liability, i.e. HK\$33,000,000 plus (i) default interest, if any, as may be specified by the financial institution compounded monthly if not paid on the dates specified by the financial institution, on that sum or part thereof (to the extent that it is not paid by the Company (as guarantor) on demand by the financial institution) and (ii) expenses of the financial institution in enforcing the guarantee on a full indemnity basis.

The Company shall pay default interest (if any) on the guaranteed moneys or part thereof (to the extent that it is not paid by the Company on demand by the financial institution), and the default interests shall be as may be specified by the financial institution compounded monthly if not paid on the dates specified and accrues from the date of demand by the financial institution on the Company until the financial institution receives payment of the whole of the guaranteed moneys.

This is a continuing security and shall secure the whole of the guaranteed moneys until one calendar month after receipt by the financial institution of notice in writing by the Company to terminate it and despite the giving of such notice, the guarantee shall continue to apply to the guaranteed moneys in respect of which the A-Max Technology is or becomes actually or contingently liable up to such termination; and the Company guarantees to pay such guaranteed moneys to the financial institution on demand whether that demand is made before, at the time of or after such termination.

The shareholders of the A-Max Technology have agreed to charge all their rights, title and interests in 44,449,386 shares of HK\$1.00 each, representing 100% of the paid up capital of the A-Max Technology, in favour of the Company.

As at 31 December 2004, there was no outstanding balances due from A-Max Technology.



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## DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As stated in the earlier section headed "Connected Transactions", the Company has executed a guarantee in favour of a financial institution regarding the provision of certain banking facilities to the Affiliated Companies on 17 December 2004. The pro forma combined balance sheet of the Affiliated Companies as at 31 December 2004 and the Group's attributable interest therein are set out as follows:

	Pro forma combined balance sheet of Affiliated Companies	Group's attributable interest
	HK\$'000	HK\$'000
Non-current assets	53,084	18,208
Current assets	68,121	23,365
Current liabilities	(14,185)	(4,865)
Net current assets	53,936	18,500
Total assets less current liabilities	107,020	36,708
Non-current liabilities	—	—
Net assets	107,020	36,708
Issued capital	55,000	
Reserves	52,020	
Capital and reserves	107,020	

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## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part throughout the year ended 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules"), save that the Independent Non-executive Directors are not appointed for specific term but are subject to retirement by rotation and re-election pursuant to the Bye-Laws of the Company.

## COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Throughout the year ended 31 December 2004, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Code"). Based on specific enquiry of the directors of the Company, the directors have complied with the required standard as set out in the Code.

## SUFFICIENCY OF PUBLIC FLOAT

Based on 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 was held by the public as at the date of this Annual Report.

## AUDIT COMMITTEE

The written terms of reference which describe the authorities and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises three Independent Non-executive Directors of the Company, namely Mr. Chung Cho Yee, Mico, Mr. Ho Kwan Tat and Dr. Hui Ka Wah, Ronnie. Two meetings were held during the current financial year.

The Audit Committee has reviewed the annual report of the Group for the year ended 31 December 2004.

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## SUBSEQUENT EVENTS

There is no significant post balance sheet events.

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Mr. Fung Ka Pun**  
*EXECUTIVE CO-CHAIRMAN*

**Dato' Wong Sin Just**  
*EXECUTIVE CO-CHAIRMAN*

20 January 2005