

## 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 2004.

### 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 and products, contact and contactless smart card readers and related products, home furniture, trading of building materials and sundry products, property holding and investment holding.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 70. No interim dividend was paid during the year (2003: Nil) and the Board does not recommend the payment of a final dividend in respect of the year (2003: 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:

	2004 HK\$'000	Year ended 31 December			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>Results</b>					
Turnover	<b>176,760</b>	248,373	136,427	78,697	1,744,546
Profit/(loss) before taxation	<b>8,983</b>	12,947	(207,380)	(132,545)	(325,197)
Taxation	<b>(340)</b>	2,341	1,039	(718)	(124)
Profit/(loss) before minority interests	<b>8,643</b>	15,288	(206,341)	(133,263)	(325,321)
Minority interests	<b>(1,468)</b>	(4,429)	13,397	(24)	378
Net profit/(loss) attributable to shareholders	<b>7,175</b>	10,859	(192,944)	(133,287)	(324,943)

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	2004 HK\$'000	31 December			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>Assets and liabilities</b>					
Properties, plant and equipment	32,077	9,859	5,475	7,841	20,633
Investment properties	12,000	18,000	31,200	14,200	24,810
Long term investments	23,700	56,712	50,394	70,031	–
Interests in associates	64,828	48,400	33,058	163,593	180,264
Goodwill	21,767	10,197	–	–	–
Current assets	262,590	127,352	111,123	606,651	694,466
<b>Total assets</b>	<b>416,962</b>	270,520	231,250	862,316	920,173
Current liabilities	(156,409)	(63,437)	(68,130)	(633,121)	(574,576)
Long term interest bearing borrowings	(3,834)	–	–	–	–
Deferred tax liabilities	(44)	(85)	–	(1,302)	(2,069)
Minority interests	(63,310)	(37,808)	(31,070)	(309)	(309)
<b>Total liabilities and minority interests</b>	<b>(223,597)</b>	(101,330)	(99,200)	(634,732)	(576,954)
<b>Net assets</b>	<b>193,365</b>	169,190	132,050	227,584	343,219

### 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 PROPERTY

Details of movements in the properties, plant and equipment and investment property 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 16 to the financial statements.

### BANK BORROWINGS

Details of the Group's bank borrowings at the balance sheet date are set out in note 24 to the financial statements.

### SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 27 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 28 to the financial statements.

### DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's share premium account, in the amount of HK\$90,219,000 (2003: HK\$73,386,000), was available to be distributed in the form of fully paid bonus shares. At 31 December 2004, the Company had contributed surplus and accumulated losses of HK\$125,376,000 and HK\$22,131,000, respectively (2003: HK\$125,376,000 and HK\$19,811,000, respectively). Details of movements in the distributable reserves of the Company are set out in note 28 to the financial statements.

### SUBSEQUENT EVENTS

Details of subsequent events relating to the Group are set out in note 33 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004:

- (i) the aggregate amount of turnover attributable to the five largest customers represented 25.87% of the Group's total turnover. Sales to the largest customer amounted to 5.33% 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 44.34% of the Group's total purchases. Purchases from the largest supplier amounted to 14.85% 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:

Shaw Wen Fei\*

Lui Chun Bing, Tommy

Au Hoi Tsun, Peter

Sung Yan Wai, Petrus

Chim Chun Kwan, Sandy

Wong Che Keung, Richard\*\*

Tong Yee Yung, Joseph\*\*

Wong Kin Chi\*\*

(appointed on 30 September 2004)

Lee Hoong Seun

(resigned on 1 December 2004)

\* Non-executive Director

\*\* Independent non-executive Directors

In accordance with Bye-Law 89 of the Company's Bye-Laws, Mr. Wong Kin Chi 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. Sung Yan Wai, Petrus and Wong Che Keung, Richard will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Board of Directors (the "Board") has obtained written confirmations from all independent non-executive Directors of the Company concerning their independence in accordance with Rule 3.13 of the Listing Rules. The Board believed that the existing independent non-executive Directors are independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

### 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 2004, 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	Percentage of holding (%)
Shaw Wen Fei	Corporate ( <i>Note 1</i> )	1,064,900	1.17
Lui Chun Bing, Tommy	Beneficial owner Family interest ( <i>Note 2</i> )	266,800 <u>4,000,000</u>	0.29 <u>4.38</u>
		4,266,800	4.67
Au Hoi Tsun, Peter	Beneficial owner	345,000	0.38

*Notes:*

- These shares were held by Sharp States Investments Inc., the entire issued share capital of which was wholly-owned by Mr. Shaw Wen Fei.
- 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

#### A. The Company

The Company adopted a share option scheme (the "Scheme") at its general meeting held on 22 March 2002. Details of the Scheme are set out as follows:

##### 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.

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.

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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*

There were 2,800,000 share options granted on 15 July 2003 and 2,720,000 share options remained outstanding as of 31 December 2004. No share options were granted, exercised, cancelled or lapsed during the year ended 31 December 2004. Details of the outstanding share options are as follows:

Name of option holder	Exercise price	Exercise period	Number of outstanding share options
<b>Directors</b>			
Shaw Wen Fei	HK\$1.14	15/7/2003 – 14/7/2008	600,000
Lui Chun Bing, Tommy	HK\$1.14	15/7/2003 – 14/7/2008	600,000
Au Hoi Tsun, Peter	HK\$1.14	15/7/2003 – 14/7/2008	450,000
Sung Yan Wai, Petrus	HK\$1.14	15/7/2003 – 14/7/2008	200,000
Chim Chun Kwan, Sandy	HK\$1.14	15/7/2003 – 14/7/2008	200,000
Wong Che Keung, Richard	HK\$1.14	15/7/2003 – 14/7/2008	60,000
Tong Yee Yung, Joseph	HK\$1.14	15/7/2003 – 14/7/2008	60,000
Sub-total:			2,170,000
<b>Others</b>			
Employees	HK\$1.14	15/7/2003 – 14/7/2008	350,000
Consultant	HK\$1.14	15/7/2003 – 14/7/2008	200,000
Total:			2,720,000

### 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.

## **B. Associated Corporation**

Omnitech Holdings Limited ("OHL"), 51.6% owned by the Company, adopted a new share option scheme at the special general meeting of the Company held on 20 May 2004 (the "OHL Scheme").

### 1. *Summary of the OHL Scheme*

The purpose of the OHL Scheme is to enable OHL to grant options to any employee and his close relative of any member of the OHL group, who at the discretion of the OHL Board, have contributed to OHL or any of its subsidiaries as incentives and rewards for their contribution to OHL or such subsidiaries. The maximum number of shares which may be issued upon exercise of all options to be granted under the OHL Scheme and any other share option scheme(s) of OHL must not exceed 10% of the OHL shares in issue on the date of approval and adoption of the OHL Scheme, i.e. 23,456,372 OHL shares and 2,345,637 OHL shares after share consolidation of OHL effective 18 August 2004. The total number of shares issued and which may fall to be issued and which may fall to be issued upon exercise of the options granted under the OHL Scheme and any other share option scheme(s) of OHL to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the OHL shares in issue as at the date of grant. Subject to the ASX Listing Rules, if the OHL Board



determines to offer to grant options to a director, chief executive or substantial shareholder of the Company or any of their respective associates, such grant shall be subject to the approval by the independent non-executive directors of the Company.

The exercise price for an OHL share under the OHL Scheme shall be the higher of (a) the weighted average market price of the OHL shares sold on the ASX for the five business days immediately preceding the date of grant; and (b) the nominal value of an OHL share.

There is no general requirement that an option must be held for any minimum period before it can be exercised but OHL 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 OHL of A\$10.00 by way of consideration is received by OHL, such date must be on or before the 30th day after the option is offered to the relevant grantee. The OHL Scheme is valid and effective for a period of 5 years after the date of adoption of the OHL Scheme, which is until 19 May 2009.

### 2. *Outstanding options*

No share options were granted under the OHL Scheme during the period from the date of adoption of the OHL Scheme up to 31 December 2004.

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.

## REPORT OF THE DIRECTORS CONTINUED

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

As at 31 December 2004, 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:

Name of Shareholder	Capacity/Nature of interests	Number of shares held	Percentage of holding (%)
The Grande (Nominees) Limited <i>(Note 1)</i>	Beneficial owner	6,573,795	7.20%
The Grande Holdings Limited <i>(Note 1)</i>	Corporate	6,573,795	7.20%
Barrican Investments Corporation <i>(Note 1)</i>	Corporate	6,573,795	7.20%
The Grande International Holdings Limited <i>(Note 1)</i>	Corporate	6,573,795	7.20%
Ho Wing On, Christopher	Corporate <i>(Note 1)</i>	6,573,795	7.20%
Planet Adventure Limited	Beneficial owner	6,200,000	6.79%
Huen Wing Ming, Patrick	Corporate <i>(Note 2)</i>	6,300,000	6.90%
Huen Ng Sui Fong, Isabel	Family Interest <i>(Note 3)</i>	6,300,000	6.90%
Sum Kin Man	Corporate <i>(Note 4)</i>	4,000,000	4.38%
	Family Interest <i>(Note 5)</i>	866,800	0.95%
		4,866,800	5.33%

*Notes:*

1. The Grande (Nominees) Limited was a wholly owned subsidiary of The Grande Holdings Limited. Barrican Investments Corporation held a controlling interest in the capital of The Grande Holdings Limited and was a wholly owned subsidiary of The Grande International Holdings Limited. The Grande International Holdings Limited was wholly owned by Mr. Ho Wing On, Christopher. The Grande Holdings Limited, Barrican Investments Corporation, The Grande International Holdings Limited and Mr. Ho Wing On, Christopher were deemed to be interested in the shares of the Company held by The Grande (Nominees) Limited.
2. Planet Adventure Limited and Patova International Limited were wholly owned by Mr. Huen Wing Ming, Patrick who was deemed to be interested in 6,200,000 shares and 100,000 shares of the Company held by Planet Adventure Limited and Patova International Limited respectively.
3. Mrs. Huen Ng Sui Fong, Isabel is the spouse of Mr. Huen Wing Ming, Patrick and was deemed to be interested in the shares of the Company held by Mr. Huen Wing Ming, Patrick.
4. Expert View Group Limited was beneficially owned as to 66.67% and 33.33% by Ms. Sum Kin Man and Mr. Lui Tin Shun, spouse and son of Mr. Lui Chun Bing, Tommy respectively. Ms. Sum Kin Man was deemed to be interested in the shares of the Company held by Expert View Group Limited.
5. Ms. Sum Kin Man is the spouse of Mr. Lui Chun Bing, Tommy and was deemed to be interested in the shares of the Company held by Mr. Lui Chun Bing, Tommy.

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.

### DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.22 of the Listing Rules, the following disclosures are included in respect of the financial assistance and guarantees to affiliated companies. As at 31 December 2004, the Group had provided to affiliated companies financial assistance amounting to HK\$10,722,000 which exceeded 8% of the market capitalisation of the Company, as further explained below. Further details of such financial assistance are disclosed in the announcement of the Company dated 14 May 2004. The pro forma combined balance sheet of these affiliated companies as at 31 December 2004 and the Group's attributable interests are set out as follows:

	<b>PVP and Bizipoint Pro forma combined</b>	<b>Group's attributable interests</b>
	HK\$'000	HK\$'000
Non-current assets	117,798	43,831
Current assets	16,244	6,112
Current liabilities	(5,196)	(2,337)
Net current assets	11,048	3,775
Total assets less current liabilities	128,846	47,606
Non-current liabilities	(8,910)	(3,472)
Net assets	119,936	44,134
Issued capital	3,255	1,699
Reserves	116,681	42,435
Capital and reserves	119,936	44,134

As at 31 December 2004, the issued share capital of the Company comprised 91,292,768 shares in issue. Based on the average closing price of the Company's shares of HK\$1.012 per share by reference to the Stock Exchange's daily quotation sheets for the five trading days from 23 December 2004 to 30 December 2004 (both dates inclusive), being the five business days immediately preceding 31 December 2004, the total market capitalisation of the Company was approximately HK\$92,388,281 as at 31 December 2004.

### GUARANTEED NET TANGIBLE ASSETS AND GUARANTEED PROFIT

As disclosed in the announcement of the Company dated 26 August 2004 and the circular of the Company dated 17 September 2004, the Company entered into an agreement with various vendors to acquire and subscribe a total of 51.5% interests in Windsor Treasure Group Holdings Limited ("the Acquisition"). The Acquisition was completed on 24 November 2004. Pursuant to the agreement in respect of the Acquisition, the relevant vendors and warrantors ("the Warrantors") have jointly and severally undertaken to the Company, that upon completion, the combined net tangible asset value of the entire Windsor Treasure as shown in its audited consolidated balance sheet upon and as at the date of completion ("the Completion Accounts") will not be less than HK\$38,000,000 taking into account the consideration for the subscription shares ("Guaranteed NTA"). Any shortfall will be made up by the Warrantors by cash. As disclosed in the Announcement dated 24 February 2005, the Guaranteed NTA has been reached by Windsor Treasure. The Warrantors have also jointly and severally undertaken to the Company that the consolidated profit after taxation and minority interests of the entire Windsor Treasure (before extraordinary items) as shown in its audited financial statements for the year ended 31 December 2004 will not be less than HK\$7,500,000 ("the Guaranteed Profit"). In the event of any shortfall of the Guaranteed Profit, the Warrantors will pay an amount equal to 8.8 times for the shortfall.

According to the Completion Accounts and audited financial statements of Windsor Treasure for the year ended 31 December 2004, the Independent Non-Executive Director confirmed that Guaranteed NTA and Guaranteed Profit have been met, no shortfall thereof being noted.

### PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

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

### CORPORATE GOVERNANCE

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.

### 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 three Independent non-executive Directors of the Company.

## REPORT OF THE DIRECTORS CONTINUED

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### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by directors.

Having made specific enquiry of all directors, each of them has complied with the required standard as set out in the Model Code.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company’s issued shares as required under the Listing Rules.

### 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*

15 March 2005