

## REVENUE AND OPERATING RESULTS

Turnover of the Group recorded for the year ended 31st December, 2004 amounted to approximately HK\$2,051,306,000, representing an increase of HK\$50,881,000 or 2.54% relative to 2003. The increase in the turnover was mainly due to increase in trading of securities which moved up to HK\$794,072,000 compared to HK\$659,899,000 in 2003, partly offset by loss in revenue resulting from the disposal of the Group's 70% and 52% equity interest in Shell & Shinsho Company Limited and Shunde Shunyue Highway Construction Limited respectively.

The Group has during the year made provisions for impairment loss on certain direct investments in high technology business and full amortization of development costs totalling approximately HK\$112,170,000 and HK\$46,360,000 respectively to keep pace with the rapid changes in the high technology market. Operating profit before provisions narrowed to approximately HK\$114,022,000, representing a decrease of HK\$8,342,000 or 6.8% over the corresponding 2003 results. After taking into account the provisions, the Group incurred a loss from operations amounting to HK\$91,591,000, compared to a profit of HK\$89,564,000 in 2003.

## FINANCIAL AND LIQUIDITY RESOURCES

The Group continued to adhere to a centralized funding policy and maintain its financial and liquidity resources in a healthy state and consistently maintained a stable liquidity position throughout 2004. In addition, there was no material change in the timing orders were secured which might give rise to volatility of the sales.

On 25th August, 2004, SMC Microtronic Company Limited, a wholly owned subsidiary of the Company entered into a loan agreement with an independent third party to advance a loan of HK\$160,000,000 thereto by way of internal resources. The loan carries an interest rate of 15% per annum and is likely to be repaid on its anniversary.

The Group reached agreements with Shunde City Heng Shun Communication Investment Management Corporation in February 2004 to exit its investment in the Liang Xing Highway by way of disposal of its 52% equity interest in the project and redemption of the shareholder's loan made by the Group. As a result, the Group received approximately Rmb272.6 million (approximately HK\$257 million) representing approximately 77% of the shareholder's loan and interest thereon, and approximately US\$9.8 million (approximately HK\$76.4 million) representing the consideration for the disposal of equity interest. According to the terms of the agreements, repayment of the remaining balance of the loan totalling Rmb81 million (approximately HK\$76.37 million), together with the accrued interest, will be made by three installments over three years ending 31st December, 2007.

During the year under review, the Group obtained a term loan from a bank for approximately HK\$195,237,000 to finance the purchase of securities. The Group repaid part of the loan for HK\$58,000,000 on 18th November, 2004. The original U.S. term loan, which was charged at fixed interest rate and secured by certain assets of the Group located in the United States, was fully repaid on 20th October, 2004 when a new U.S. term loan of US\$15,000,000, which was charged at floating interest rate and secured by the same assets, was obtained.

Other than the U.S. term loan, all banking facilities of the Group were arranged on short-term basis and subject to floating interest rates.

Apart from the above, there were no material changes to the Group's available banking facilities since 31st December, 2003.

## FOREIGN EXCHANGE EXPOSURE

The Group's major borrowings were in Hong Kong Dollars and US Dollars. The Group continued to conduct its sales mainly in US Dollars and make payments either in US Dollars or Hong Kong Dollars. So far as the Hong Kong Dollars and the US Dollars remained pegged, the Group considered that it had no significant exposure to foreign exchange risk.

## GEARING RATIO

The Group has put in place its policy of maintaining a prudent gearing ratio. As at 31st December, 2004, the Group recorded a gearing ratio, expressed as a percentage of total bank borrowings to shareholders' funds, of 12.57% (31st December, 2003: 5.45%). Total bank borrowings and shareholders' fund of the Group amounted to approximately HK\$259,856,000 and HK\$2,067,831,000 respectively (31st December, 2003: HK\$107,200,000 and HK\$1,965,516,000 respectively). During the year ended 31st December, 2004, the Group obtained a term loan from a bank to finance the purchase of securities and approximately HK\$137,237,000 was outstanding as at 31st December, 2004. As a result, both the bank borrowings and the Group's gearing ratio went up significantly.

## CAPITAL EXPENDITURE

The Group had a total capital expenditure amounting to HK\$126,776,000 during the year ended 31st December, 2004.

**SIGNIFICANT ACQUISITIONS AND DISPOSALS**

The Group has entered into an agreement in March 2004 with an independent third party for the sale of all its 70% equity interest in the steel processing and steel trading business. In addition, the Group entered into agreements in February and June 2004 with Shunde City Heng Shun Communication Investment Management Corporation for the disposal of its 52% equity interest in Shunde Shunyue Highway Construction Limited. Moreover, the Group has entered into an agreement in April 2004 with an independent third party for the disposal of certain property in respect of the cable factory in Mainland China held by its wholly owned subsidiary.

In January 2005, the Group has entered into an acquisition agreement with an independent third party to purchase 20% equity interest in Yue Tian Development Limited ("Yue Tian") with cash consideration of HK\$3,814,400. Simultaneously with the execution of the acquisition agreement, the Group and Yue Tian entered into a loan agreement, pursuant to which the Group has agreed to advance a sum of HK\$60,000,000 to Yue Tian. Details of this acquisition are set out in the Circular distributed to the shareholders on 25th January, 2005. In addition, the Group has entered into agreements with two directors of Appeon Corporation ("Appeon") for acquiring their shares representing 14.69% in aggregate in Appeon, details of which are set out in the press announcement dated 31st January, 2005.

Other than the above, there is no significant acquisition and disposal during the year and up to the date of this report.

**CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

There were no significant change in capital commitments and contingent liabilities compared to the position as at 31st December, 2003.

**CHARGES ON ASSETS**

There was no significant change in charges on assets of the Group compared to the position as at 31st December, 2003.

**EMPLOYEES**

As at 31st December, 2004, the Group has approximately 1,670 employees. The pay levels of these employees are commensurate with their responsibilities, performance and market condition. In addition, share option schemes are put in place as a longer term incentive to align interests of employees to those of shareholders.

The Group's co-operative joint venture companies in Mainland China continued to provide employment to approximately 4,000 people.