

The directors present their annual report and the audited financial statements for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and trading. The activities of its principal subsidiaries and associates are set out in notes 43 and 44 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 16.

An interim dividend of 3 cents per share amounting to HK\$13,298,000 was paid to the shareholders during the year. Subject to the approval of shareholders at the forthcoming annual general meeting, the board of directors of the Company (the "Board") now recommend the payment of a final dividend of 7 cents per share, to be satisfied by cash, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in the form of new shares in lieu of cash, to the shareholders on the register of members on 11th May, 2005, thus giving rise to a final dividend distribution amounting to HK\$31,352,000 and the retention of the remaining profit for the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 72.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

All of the Group's investment properties were revalued at 31st December, 2004. The revaluation resulted in an increase over book values amounting to HK\$2,140,000, which has been credited directly to the investment property revaluation reserve.

Apart from the above movements, the Group also expended approximately HK\$16,400,000 in land and buildings, approximately HK\$3,149,000 in plant and machinery and approximately HK\$9,722,000 in furniture, fixtures and office equipment during the year.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group and the Company are set out in notes 16 and 17 respectively to the financial statements.

MAJOR PROPERTIES

Details of the major properties and property interests of the Group at 31st December, 2004 are set out on pages 73 and 74 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company and outstanding share options of the Company and its subsidiaries are set out in note 32 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited, details of which are set out in note 32 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

DIRECTORS

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

Executive directors

Mr. Billy K YUNG (*Group Chairman and Managing Director*)
Dr. YUNG Yau (*Honorary Chairman*) (*deceased on 2nd May, 2004*)
Madam YUNG HO Wun Ching
Mr. LEUNG Chun Wah
Mr. Plato POON Chak Sang

Non-executive director

Mr. Simon YUNG Kwok Choi

Independent non-executive directors

Cav Gr Cr Dr. Leo Tung-Hai LEE, GBS, OBE,
Chev Leg d'Hon, Comm Leopold II, LLD, JP
Mr. Shiu-Kit NGAI, SBS, OBE, JP
Mr. Peter WONG Chung On (*appointed on 30th March, 2004*)
Mr. Peter LAM (*appointed on 6th September, 2004*)

In accordance with Article 103 of the Company's Articles of Association, Mr. Billy K Yung, Dr. Leo Tung-Hai Lee and Mr. Shiu-Kit Ngai shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 94 of the Company's Articles of Association, Mr. Peter Lam shall retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company still considers such directors to be independent.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each non-executive director is subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS

(a) Shares

At 31st December, 2004, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Capacity	Nature of interests	Number of ordinary shares beneficially owned	Aggregate long position	Percentage of aggregate long position to the issued share capital of the Company
Mr. Billy K Yung	Beneficial owner	Personal interest	67,138,723	173,181,475	38.67%
	Interest of controlled corporation	Corporate interest	2,246,808 (Note 1)		
	Beneficial of a trust	Other interest	103,795,944 (Note 2)		
Dr. Leo Tung-Hai Lee	Beneficial owner	Personal interest	306,382	306,382	0.07%
Madam Yung Ho Wun Ching	Beneficial owner	Personal interest	53,196,300	63,196,300	14.11%
	Interest of spouse	Family interest	10,000,000 (Note 3)		
Mr. Leung Chun Wah	Beneficial owner	Personal interest	1,799,400	1,799,400	0.40%
Mr. Plato Poon Chak Sang	Beneficial owner	Personal interest	739,200	739,200	0.17%
Mr. Simon Yung Kwok Choi	Beneficial owner	Personal interest	39,147,911	43,677,351	9.75%
	Interest of controlled corporation	Corporate interest	3,529,440 (Note 4)		
	Interest of spouse	Family interest	1,000,000 (Note 5)		
Mr. Peter Lam	Beneficial of a trust	Other interest	1,000,000 (Note 6)	1,000,000	0.22%

Notes:

- These shares are held by Management Systems Limited, which is wholly owned by Mr. Billy K Yung.
- These shares are held by a trust for the benefit of Mr. Billy K Yung and his family.
- This interest represents the holdings of shares held by the late Dr. Yung Yau.
- These shares are held by Konvex Enterprises Limited, which is wholly owned by Mr. Simon Yung Kwok Choi.
- This interest is in fact the same block of shares disclosed under the personal interest of Mr. Simon Yung Kwok Choi's spouse, Madam Chiu Man and is disclosed in the section headed "Substantial Shareholders" below.
- These shares are held by a trust for the benefit of Mr. Peter Lam.

(b) Share options

Particulars of the directors' interests in the share option schemes of the Company and its subsidiaries namely Apeon Corporation and Galactic Computing Corporation are set out in note 32 to the financial statements.

(c) **Disclosure of other interest**

- (i) Certain directors held shares in subsidiaries as trustees for the Company.
- (ii) During the year, the Group's wholly owned subsidiary, Extra-Fund Investment Limited, entered into securities trading transactions with Tung Tai Securities Co., Ltd. of which the Group's independent non-executive director, Dr. Leo Tung-Hai Lee is both a director and a substantial shareholder. The transactions were conducted on an arm's length basis and gave rise to a broker's commission of approximately HK\$30,000 for the year ended 31st December, 2004.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation at 31st December, 2004.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of substantial shareholder	Capacity	Nature of interests	Number of ordinary shares beneficially owned	Aggregate long position	Percentage of aggregate long position to the issued share capital of the Company
UBS Trustees (BVI) Limited	Trustee of a trust	Other interest	111,904,194 <i>(note 1)</i>	111,904,194	24.98%
Diamond Key Enterprises Inc.	Beneficial owner	Beneficial owner	103,795,944 <i>(note 1)</i>	103,795,944	23.17%
Madam Vivian Hsu	Interest of spouse	Family interest	69,385,531 <i>(note 2)</i>	69,385,531	15.49%
Madam Yung Siu Chee Margaret	Beneficial owner	Personal interest	28,154,604	28,154,604	6.29%
Madam Chiu Man	Beneficial owner Interest of spouse	Personal interest Family interest	1,000,000 42,677,351 <i>(note 3)</i>	43,677,351	9.75%

Notes:

- (1) 103,795,944 shares form part of the 111,904,194 shares held by UBS Trustees (BVI) Limited which are disclosed in the section headed "Directors' Interests" above as being held under a trust with Mr. Billy K Yung and his family as the beneficiaries.
- (2) Madam Vivian Hsu's shares are in fact the same block of shares already disclosed under the personal and corporate interests of her husband, Mr. Billy K Yung and is disclosed in the section headed "Directors' Interests" above.
- (3) Madam Chiu Man's shares disclosed under the family interest are in fact the same block of shares already disclosed under the personal and corporate interests of her husband, Mr. Simon Yung Kwok Choi and is disclosed in the section headed "Directors' Interests" above.

Other than as disclosed above, there was no person, other than the directors of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under section 336 of the SFO.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Except for the share options granted to the directors pursuant to the schemes as set out in note 32 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries 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.

CONNECTED TRANSACTIONS

In the opinion of the Directors including the independent non-executive directors, purchases during the period from 1st January, 2004 to 23rd March, 2004 totalling HK\$21,612,000 in respect of raw materials made by Shell & Shinsho Company Limited (subsequently the name was changed to VSC Shinsho Company Limited) ("Shell & Shinsho"), formerly a 70% owned subsidiary of the Company, from Shinsho Corporation of Japan which owns the remaining 30 % of Shell & Shinsho, were:

- (i) conducted on normal commercial terms;
- (ii) in the ordinary and usual course of business of the Group;
- (iii) fair and reasonable so far as the shareholders of the Company as a whole were concerned; and
- (iv) within the limit in that the aggregate value of these purchases was less than 3% of the consolidated net tangible assets as shown in the Group's audited accounts as at 31st December, 2003.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

MAJOR SUPPLIERS AND CUSTOMERS

For the financial year ended 31st December, 2004, the five largest suppliers of the Group accounted for approximately 55% of the total purchases of the Group, of which 20% was attributable to the largest supplier and the five largest customers accounted for approximately 55% of the total sales of the Group's turnover, of which 31% was attributable to the largest customer.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in the share capital of any of the five largest suppliers.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$679,000.

POST BALANCE SHEET EVENTS

Details of the Group's post balance sheet events are set out in note 39 to the financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

BILLY K YUNG

Chairman of the Board

Hong Kong, 6th April, 2005