

# 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. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 86.

The directors do not recommend the payment of any dividends in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS					
Turnover	<b>1,135,705</b>	820,168	666,989	709,195	1,208,670
Profit/(loss) from operating activities	<b>9,883</b>	(21,225)	(32,502)	(51,808)	38,935
Share of loss of an associate	–	(1,938)	(3,518)	–	–
Profit/(loss) before tax	<b>9,883</b>	(23,163)	(36,020)	(51,808)	38,935
Tax	<b>(3,146)</b>	17,524	(2,838)	5,284	(4,119)
Profit/(loss) before minority interests	<b>6,737</b>	(5,639)	(38,858)	(46,524)	34,816
Minority interests	<b>(316)</b>	(598)	(555)	353	524
Net profit/(loss) from ordinary activities attributable to shareholders	<b>6,421</b>	(6,237)	(39,413)	(46,171)	35,340

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION (continued)

	31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	<b>891,557</b>	717,851	657,685	594,998	702,881
Total liabilities	<b>(642,516)</b>	(476,201)	(430,720)	(395,186)	(473,501)
Minority interests	<b>(2,253)</b>	(2,124)	(1,233)	(402)	(392)
	<b>246,788</b>	239,526	225,732	199,410	228,988

## FIXED ASSETS AND INVESTMENT PROPERTY

Details of movements in the fixed assets and investment property of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 31 and 32 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, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

There has been no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2004.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$73,136,000. In addition, the Company's share premium account, in the amount of HK\$94,478,000, may be distributed in the form of fully paid bonus shares.

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 37% of the Group's total sales for the year and sales to the largest customer included therein amounted to 12%. Purchases from the Group's five largest suppliers accounted for less than 20% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers.

## DIRECTORS

The directors of the Company during the year were:

### Executive Directors:

Mr. Lin Chun Kuei (*Chairman and Chief Executive Officer*)

Mr. Andree Halim (*Co-vice Chairman*)

(*Previously Non-executive Director, re-designated as an Executive Director and appointed as a Co-vice Chairman on 1 March 2004*)

Mr. Kam Wing Leung (*Co-vice Chairman*)

(*Resigned on 5 August 2004*)

Dr. Gunter Michael Denk (*Co-vice Chairman*)

(*Resigned on 29 February 2004*)

Mr. Ng Kin Nam (*Co-vice Chairman and Authorised Representative*)

(*Appointed as a Co-vice Chairman and Authorised Representative on 1 March 2004*)

Mr. Guo Yah Taur (alias Peter Ya Tao Kuo)

(*Resigned on 30 May 2004*)

Mr. He Jing Guang

Mr. Li Chien Kuan

Mr. Lin Chun Fu

Mr. Graeme Stanley Pope

### Independent Non-executive Directors:

The Hon. Bernard Charnwut Chan

Mr. Goh Gen Cheung

Mr. Ma Chiu Cheung, Andrew

(*Appointed on 23 September 2004*)

In accordance with bye-law 111 of the Company's bye-laws, Messrs. Li Chien Kuan and Goh Gen Cheung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 115 of the Company's bye-laws, Mr. Ma Chiu Cheung, Andrew who was appointed on 23 September 2004, will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

The directors of the Company, including the Non-executive Directors but excluding the chairman, the managing director and the vice chairmen, 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.

# Report of the Directors

## **DIRECTORS' SERVICE CONTRACTS**

Mr. Lin Chun Kuei, Mr. Lin Chun Fu, Mr. Kam Wing Leung and Mr. Li Chien Kuan, Executive Directors, entered into service agreements with the Company for a term of three years commencing from 1 December 1997, which are renewable automatically for successive terms of one year each, until terminated by not less than six months' notice in writing served by either party on the other. Mr. Kam Wing Leung resigned as an Executive Director and Co-vice Chairman on 5 August 2004.

Dr. Gunter Michael Denk, an Executive Director, entered into a service agreement with the Company for a term of four years and five months commencing from 23 December 1999, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other. Dr. Denk resigned as an Executive Director and Co-vice Chairman on 29 February 2004. His service agreement with the Company terminated starting from 1 March 2004.

Mr. He Jing Guang, an Executive Director, entered into a service agreement with the Company for a term of one year commencing from 1 May 2000, renewable automatically for successive terms of one year. He resigned on 30 May 2004.

Mr. Graeme Stanley Pope, an Executive Director, entered into a service agreement with the Company, through a service company beneficially owned by him, for a term of one year commencing from 22 May 2000, renewable automatically for successive terms of one year, until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Guo Yah Taur (alias Peter Ya Tao Kuo), an Executive Director, entered into a service agreement with the Company for a term of three years commencing from 30 March 2001, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Mr. Ng Kin Nam, an Executive Director, entered into a service agreement with the Company for a term of three years commencing from 1 August 2002, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Mr. Andree Halim, being re-designated to hold the office of Executive Director on 1 March 2004, entered into a service agreement with the Company for a term of three years commencing from 1 March 2004, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Apart from the foregoing, 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 of compensation, other than statutory compensation.

# Report of the Directors

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board of Directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from the service agreement entered between the Company and a service company beneficially owned by an executive director as mentioned in the section "Directors' service contracts" above and in note 39 to the financial statements, no director had a beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY

At 31 December 2004, the interests or short positions of the Directors and chief executive in the share capital and underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be 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 ordinary shares of the Company:

Name of Director	Notes	Number of Shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Personal	Family	Corporate		
Mr. Lin Chun Kuei		74,873,200	–	–	74,873,200	10.24
Mr. Lin Chun Fu		33,690,800	–	–	33,690,800	4.61
Mr. Andree Halim	1	–	–	102,300,000	102,300,000	14.00
Mr. Ng Kin Nam	2	24,157,200	7,601,000	88,359,800	120,118,000	16.43
		132,721,200	7,601,000	190,659,800	330,982,000	45.28

# Report of the Directors

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY (continued)**

Notes:

1. *Tian Wan Pte. Ltd. is the beneficial owner of 102,300,000 Shares. The entire issued share capital of Tian Wan Pte. Ltd. is beneficially owned as to 50% each by Mr. Andree Halim and Mr. Daniel Halim, the son of Mr. Andree Halim. Accordingly, Mr. Andree Halim is deemed to be interested in the 102,300,000 Shares beneficially owned by Tian Wan Pte. Ltd.*
2. *Jade Investment Limited is the beneficial owner of 88,359,800 Shares. The entire issued share capital of Jade Investment Limited is beneficially owned as to 50% each by Mr. Ng Kin Nam and Ms. Jocelyn O. Angeleslao, the spouse of Mr. Ng Kin Nam. Accordingly, Mr. Ng Kin Nam is deemed to be interested in the 88,359,800 Shares beneficially owned by Jade Investment Limited.*

*Mr. Ng Kin Nam is also deemed to be interested in the 7,601,000 Shares beneficially owned by Ms. Jocelyn O. Angeleslao.*

In addition to the above, certain directors hold shares in certain subsidiaries of the Company, in a non-beneficial capacity, solely for the purpose of complying with minimum company membership requirements.

Save as disclosed above, as at 31 December 2004, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed in the share option scheme disclosures in note 32 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, 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**

Detailed disclosures relating to the Company's share option scheme are set out in note 32 to the financial statements.

No share options were granted or exercised during the year.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE COMPANY

At 31 December 2004, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 and Part XV of the SFO, or who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Long positions in shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary Shares held	Percentage of the Company's issued share capital
Jocelyn O. Angeleslao	1	Through a controlled corporation	88,359,800	12.09
	1	Directly beneficially owned	7,601,000	1.04
	1	Through the spouse	24,157,200	3.30
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			120,118,000	16.43
Tian Wan Pte. Ltd.	2	Directly beneficially owned	102,300,000	14.00
Daniel Hailm	2	Through a controlled corporation	102,300,000	14.00
Jade Investment Limited	3	Directly beneficially owned	88,359,800	12.09
Lin Huang Su Feng	4	Through the spouse	74,873,200	10.24
Huang Chun Chieh	5	Directly beneficially owned	35,053,000	4.80
	5	Through the spouse	8,300,000	1.13
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			43,353,000	5.93
Huang Chiu Kuei	6	Directly beneficially owned	8,300,000	1.13
	6	Through the spouse	35,053,000	4.80
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			43,353,000	5.93

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE COMPANY *(continued)*

Notes:

1. Ms. Jocelyn O. Angeleslao is the spouse of Mr. Ng Kin Nam, an Executive Director, and the beneficial owner of 50% of the existing issued share capital of Jade Investment Limited. Accordingly, she is deemed to be interested in the 24,157,200 shares beneficially owned by Mr. Ng Kin Nam and the 88,359,800 shares beneficially owned by Jade Investment Limited. She is also the beneficial owner of 7,601,000 shares.
  2. Tian Wan Pte. Ltd. is the beneficial owner of 102,300,000 Shares. The entire issued share capital of Tian Wan Pte. Ltd. is beneficially owned as to 50% each by Mr. Andree Halim and Mr. Daniel Halim, the son of Mr. Andree Halim. Accordingly, Mr. Daniel Halim is deemed to be interested in the 102,300,000 Shares beneficially owned by Tian Wan Pte. Ltd.
  3. Jade Investment Limited is the beneficial owner of 88,359,800 shares.
  4. Ms. Lin Huang Su Feng is the spouse of Mr. Lin Chun Kuei, an Executive Director. Accordingly, she is deemed to be interested in the 74,873,200 shares which are beneficially owned by Mr. Lin Chun Kuei.
  5. According to a Form 1 of Individual Substantial Shareholder Notice filed with the Stock Exchange on 7 April 2004, Mr. Huang Chun Chieh is the beneficial owner of 35,053,000 shares and is deemed to be interested in the 8,300,000 shares beneficially owned by his spouse, Ms. Huang Chiu Kuei.
  6. According to a Form 1 of Individual Substantial Shareholder Notice filed with the Stock Exchange on 7 April 2004, Ms. Huang Chiu Kuei is the beneficial owner of 8,300,000 shares and is deemed to be interested in the 35,053,000 shares beneficially owned by her spouse, Mr. Huang Chun Chieh.
- (ii) Long positions in shares of subsidiaries of the Company:

<b>Name of subsidiary</b>	<b>Name of substantial shareholder</b>	<b>Percentage of shareholding</b>
Peaktop Technologies (USA) Hong Kong Limited	Geoglobal Partners LLC	49
Waterwerks Pty. Ltd.	Infiniti Marketing Group Pty. Ltd.	10

Save as disclosed above, as at 31 December 2004, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, no other person (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.



# Report of the Directors

## CONNECTED TRANSACTIONS

- (i) The Group has paid approximately HK\$1,170,000 of product design and research expenses to a company owned by Mr. Graeme Stanley Pope, a director of the Company, for the development of new products.
- (ii) According to a loan agreements dated 18 August 2004 entered into between the Group and each of Mr. Lin Chun Kuei, Mr. Ng Kin Nam and Mr. Andree Halim, directors of the Company, each of the directors advanced to the Company a loan of US\$500,000 (approximately HK\$3,900,000) to the Company. The loans are unsecured, interest-free and are repayable within one year. As at 31 December 2004, the loans advanced from the directors amounted to approximately HK\$5,850,000.
- (iii) During the year, the Group disposed of 49% of its equity interests in a subsidiary, Peaktop Technologies (USA), Inc. ("PTTUSA") to Geoglobal Partners LLC, a minority shareholder of a subsidiary, at a consideration of US\$49 (equivalent to approximately HK\$382). The sales consideration is mutually agreed between the parties.
- (iv) During the year, the Group disposed of 70% of its equity interests in a subsidiary, Heissner Benelux B.V. ("Benelux"), at a consideration of EUR17,500 (equivalent to approximately HK\$170,000) to a minority shareholder, Arie Vogel Holding B.V. The sales consideration is mutually agreed between the parties.
- (v) Pursuant to an agreement dated 9 January 2004 (the "Agreement") entered into between the Group and Geoglobal, a company which holds 49% of the subsidiaries, Peaktop Technologies (USA) Hong Kong Limited and Peaktop Technologies (USA), Inc., the Group and Geoglobal agreed to share the net profit on those sales introduced by Geoglobal in accordance with the Agreement or in other proportion as agreed otherwise. During the year, the Group charged to the consolidated profit and loss account of such profit amounted to HK\$41,018,000 in the form of sales commission. The accrued sales commission payable to Geoglobal amounted to HK\$23,009,000 as at 31 December 2004.
- (vi) The Group provided corporate guarantees of approximately HK\$24,039,000, HK\$1,122,000 and HK\$150,480,000 on the banking facilities granted to Heissner AG, Heissner UK Limited and Peaktop Technologies (USA) Hong Kong Limited, 99.1%, 99.7% and 51% owned subsidiaries of the Group during the year. The total banking facilities granted by the bankers in this respect and the amounts utilised as at 31 December 2004 were approximately HK\$229,754,000 and HK\$190,995,000 respectively.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

# Report of the Directors

## **SUFFICIENCY OF PUBLIC FLOAT**

Rule 8.08 of the Listing Rules required at least 25% of the issued share capital of the Company must be held in public hands. Based on information available and within the knowledge of the directors as at the latest practicable date prior to the issue of the annual report, the obligation has been complied with.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except that the Non-executive Directors were not appointed for a specific term as required under the Code of Best Practice. However all the Non-executive Directors will be subject to retirement by rotation and re-election at the annual general meetings in accordance with the bye-laws of the Company.

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company made specific enquiry with all the directors as to whether the directors have complied with the required standard set out in the Model Code during the year ended 31 December 2004 and all the directors have confirmed that they have complied with the Model Code.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

The Group's annual report for the year ended 31 December 2004 has been reviewed by the audit committee.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

On 23 September 2004, an additional Independent Non-executive Director was appointed to comply with Rule 3.10(1) and 3.21 of the Listing Rules with regards to sufficient number of Independent Non-executive Directors and to have three Independent Non-executive Directors in the audit committee.

The audit committee comprises the three Independent Non-executive Directors of the Company, namely The Hon. Bernard Charnwut Chan, Mr. Goh Gen Cheung and Mr. Ma Chiu Cheung, Andrew. Mr. Ma Chiu Cheung, Andrew is the Chairman of the audit committee.

# Report of the Directors

## REMUNERATION COMMITTEE

The Company has established a remuneration committee on 12 April 2005, which is responsible for formulating and making recommendation to the Board on the Group's policy and structure for all the remunerations of the Directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. The remuneration committee comprises Mr. Goh Gen Cheung, The Hon. Bernard Charnwut Chan, Mr. Ma Chiu Cheung, Andrew, Mr. Lin Chun Kuei and Mr. Li Chien Kuan. The committee's authority and duties are set out in written terms of reference and the majority of the committee members are Independent Non-executive Directors. The Chairman of remuneration committee is Mr. Goh Gen Cheung. The committee holds regular meetings every year and provides advice and suggestions to the Board.

## NOMINATION COMMITTEE

The Company has established a nomination committee on 12 April 2005, which is responsible for nominating and affirming candidates approved by the Board, reviewing the structure and composition of the board on a regular basis, ensuring the competitive position of the organization, evaluating the leadership abilities of executive and non-executive directors and ensuring fair and transparent procedures for the appointment of directors to the Board. The nomination committee comprises The Hon. Bernard Charnwut Chan, Mr. Goh Gen Cheung, Mr. Ma Chiu Cheung, Andrew, Mr. Lin Chun Kuei and Mr. Li Chien Kuan. The committee's authority and duties are set out in written terms of reference and the majority of the committee members are Independent Non-executive Directors. The Chairman of nomination committee is The Hon. Bernard Charnwut Chan. The committee holds regular meetings every year and provides advice and suggestions to the Board.

## AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Lin Chun Kuei**

Chairman

Hong Kong, 21 April 2005