

Report of the Directors

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 2006.

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 loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 88. Special interim dividend of HK\$0.2 per share was paid during the Year (2005: Nil) and the Board does not recommend the payment of a final dividend in respect of the Year (2005: 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:

	Year ended 31 December				
	2006 HK\$'000 (Note)	2005 HK\$'000 (Note)	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Results					
Turnover	383,756	393,273	176,760	248,373	136,427
Profit/(loss) before taxation	(14,060)	(5,439)	8,983	12,947	(207,380)
Taxation	(324)	(969)	(340)	2,341	1,039
Profit/(loss) before minority interests	(14,384)	(6,408)	8,643	15,288	(206,341)
Minority interests	(16,272)	(13,383)	(1,468)	(4,429)	13,397
Net profit/(loss) attributable to shareholders	(30,656)	(19,791)	7,175	10,859	(192,944)

Report of the Directors (Continued)

Note: The results for the years ended 31 December 2005 and 2006 were presented according to continuing and discontinued operations in the financial statements pursuant to HKFRS 5. For details of discontinued operations, please refer to note 10 to the financial statements.

	2006 HK\$'000	31 December			
		2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Assets and liabilities					
Properties, plant and equipment	12,312	30,995	32,077	9,859	5,475
Investment properties	9,070	10,430	12,000	18,000	31,200
Long term investments	10,000	23,700	23,700	56,712	50,394
Interests in associates	59,717	50,689	64,828	48,400	33,058
Goodwill	–	21,767	21,767	10,197	–
Current assets	168,999	328,519	262,590	127,352	111,123
Total assets	260,098	466,100	416,962	270,520	231,250
Current liabilities	(83,759)	(187,491)	(156,409)	(63,437)	(68,130)
Long term interest bearing borrowings	(1,385)	(3,124)	(3,834)	–	–
Deferred tax liabilities	(17)	(17)	(44)	(85)	–
Minority interests	(36,050)	(74,084)	(63,310)	(37,808)	(31,070)
Total liabilities and minority interests	(121,211)	(264,716)	(223,597)	(101,330)	(99,200)
Net assets	138,887	201,384	193,365	169,190	132,050

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 14 and 15 to the financial statements, respectively.

Report of the Directors (Continued)

SUBSIDIARIES

Particulars of the Company's principal subsidiaries at the balance sheet date are set out in note 17 to the financial statements.

ASSOCIATES

Particulars of the Group's principal associates at the balance sheet date are set out in note 18 to the financial statements.

BANK BORROWINGS

Details of the Group's bank borrowings at the balance sheet date are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 29 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 30 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's share premium account, in the amount of HK\$116,230,000 (2005: HK\$116,230,000), was available to be distributed in the form of fully paid bonus shares. At 31 December 2006, the Company had contributed surplus and accumulated losses of HK\$125,376,000 and HK\$112,075,000, respectively (2005: HK\$125,376,000 and HK\$24,094,000, respectively). Details of movements in the distributable reserves of the Company are set out in note 30 to the financial statements.

Report of the Directors (Continued)

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006:

- (i) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.
- (ii) the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

The Directors of the Company during the Year and up to the date of this report were:

Wong Kin Chi**

Au Hoi Tsun, Peter

Sung Yan Wai, Petrus

Hui Tung Wah, Samuel

Wong Che Keung, Richard**

Tong Yee Yung, Joseph**

Shaw Wen Fei* (resigned on 15 June 2006)

Sung Kai Hing, Simon (resigned on 11 January 2007)

* *Non-executive Director*

** *Independent non-executive Directors*

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.

In accordance with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, Messrs. Wong Kin Chi (Chairman of the Board) and Au Hoi Tsun, Peter (Managing Director of the Company) will retire voluntarily, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors (Continued)

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 2006, the interests and short positions of each Director and chief executive of the Company 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 are 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 he is taken or deemed to have under such provisions of the SFO) or are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of Director	Capacity/ Nature of interests	Number of shares	Percentage of holding (%)
Au Hoi Tsun, Peter	Beneficial owner	517,500	0.34
Hui Tung Wah, Samuel	Beneficial owner	280,000	0.19
	Family interest (Note 1)	75,000	0.05
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		355,000	0.24
Sung Kai Hing, Simon	Corporate (Notes 2 & 3)	6,695,850	4.45

Notes:

1. These 75,000 shares were jointly owned by Mr. Hui Tung Wah, Samuel and his spouse.
2. Out of these 6,695,850 shares, 5,674,200 shares were held by Capitalrise Group Limited, a corresponding interest of 80% and 20% of the issued share capital of which was beneficially owned by Mr. Sung Kai Hing, Simon and his spouse, respectively. The remaining 1,021,650 shares were held by Bloominvest Group Limited, the entire issued share capital of which was wholly owned by Mr. Sung Kai Hing, Simon.
3. Mr. Sung Kai Hing, Simon resigned as an executive director on 11 January 2007.

The interests of the Directors in the share option of the Company are separately disclosed under the heading "Share Option Scheme".

Report of the Directors (Continued)

Save as disclosed above, none of the Directors and 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. An ordinary resolution was passed at the special general meeting of the Company held on 19 May 2005 to refresh the 10% limit on the grant of options under the Scheme so that the maximum number of shares which may be issued after the refreshment is 10,029,276 shares, representing 6.67% of the total issued share capital as at the date of the annual report. 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.

Report of the Directors (Continued)

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.

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.

Report of the Directors (Continued)

2. Outstanding options

There was 4,274,000 share options remained outstanding as of 31 December 2006. Details of the outstanding share options are as follows:

Name or category of participant	At 1 Jan 2006	Lapsed during the year	At 31 Dec 2006	Date of grant of share options	Exercise period	Exercise price HK\$	Total balance at 31 Dec 2006
Directors							
Wong Kin Chi	70,000	-	70,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	70,000
Au Hoi Tsun, Peter	540,000	-	540,000	14/07/2003	15/07/2003 to 14/07/2008	0.95	840,000
	300,000	-	300,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	-
Sung Yan Wai, Petrus	240,000	-	240,000	14/07/2003	15/07/2003 to 14/07/2008	0.95	490,000
	250,000	-	250,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	-
Hui Tung Wah, Samuel	800,000	-	800,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	800,000
Wong Che Keung, Richard	72,000	-	72,000	14/07/2003	15/07/2003 to 14/07/2008	0.95	142,000
	70,000	-	70,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	-
Tong Yee Yung, Joseph	72,000	-	72,000	14/07/2003	15/07/2003 to 14/07/2008	0.95	142,000
	70,000	-	70,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	-
Shaw Wen Fei (Note 1)	720,000	(720,000)	-	14/07/2003	15/07/2003 to 14/07/2008	0.95	-
	800,000	(800,000)	-	14/06/2005	15/06/2005 to 14/06/2010	0.80	-
Sung Kai Hing, Simon (Note 2)	800,000	-	800,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	800,000
Sub-Total:	4,804,000	(1,520,000)	3,284,000				3,284,000

Report of the Directors (Continued)

Name or category of participant	At 1 Jan 2006	Lapsed during the year	At 31 Dec 2006	Date of grant of share options	Exercise period	Exercise price HK\$	Total balance at 31 Dec 2006
Others							
Employees (other than Directors)	240,000	-	240,000	14/07/2003	15/07/2003 to 14/07/2008	0.95	760,000
	4,020,000	(3,500,000)	520,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	-
Other participants	900,000	(720,000)	180,000	14/07/2003	15/07/2003 to 14/07/2008	0.95	230,000
	850,000	(800,000)	50,000	14/06/2005	15/06/2005 to 14/06/2010	0.80	-
Total	10,814,000	(6,540,000)	4,274,000				4,274,000

Notes:

- Mr. Shaw Wen Fei resigned as a non-executive director on 15 June 2006.
- Mr. Sung Kai Hing, Simon resigned as an executive director on 11 January 2007.
- Valuation of share options*
Details of the valuation are set out in note 29 to the financial statements.

B. Associated Corporations

Omnitech Holdings Limited

Omnitech Holdings Limited ("OHL"), 77.04% 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.

Report of the Directors (Continued)

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.

Report of the Directors (Continued)

2. Outstanding options

Name or category of participant	At 1 Jan 2006	Lapsed during the year	At 31 Dec 2006	Date of grant of share options	Exercise period	Exercise price AUD	Total balance at 31 Dec 2006
Directors of the Company							
Au Hoi Tsun, Peter	200,000	-	200,000	18/05/2005	18/05/2005 to 18/05/2008	0.069	200,000
Sung Yan Wai, Petrus	75,000	-	75,000	18/05/2005	18/05/2005 to 18/05/2008	0.069	75,000
Total	275,000	-	275,000				275,000

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 2006, 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	Percentage of holding
Planet Adventure Limited	Beneficial owner	9,300,000	6.18%
Huen Wing Ming, Patrick	Corporate (Note 1)	9,450,000	6.28%
Huen Ng Sui Fong, Isabel	Family Interest (Note 2)	9,450,000	6.28%

Notes:

1. Planet Adventure Limited and Patova International Limited were wholly owned by Mr. Huen Wing Ming, Patrick who was deemed to be interested in 9,300,000 shares and 150,000 shares of the Company held by Planet Adventure Limited and Patova International Limited respectively under the SFO.
2. 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 in which Mr. Huen Wing Ming, Patrick was interested under the SFO.

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.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S SHARES

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Report of the Directors (Continued)

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the Year with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, save for a deviation in respect of communication with shareholders.

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting and be available to answer questions at the annual general meeting. However, the Chairman of the Board did not attend the 2006 annual general meeting and instead the Managing Director of the Company presided and attended the 2006 annual general meeting and was available there to answer questions.

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

Wong Kin Chi

Chairman

Hong Kong, 23 March 2007