



寧波屹東電子股份有限公司
Ningbo Yidong Electronic Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

2003

ANNUAL REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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This report, for which the directors of Ningbo Yidong Electronic Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“the GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Ya Qun
Mr. Liu Xiao Chun
Mr. Chen Zheng Tu
Mr. Wang Pei Zhang

NON-EXECUTIVE DIRECTOR

Mr. Li Ming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tang Zhen Ming
Mr. Ding Gang Yi
Mr. Lam Ming Yung

SUPERVISORS

Mr. Zhang Xing Jiang
Mr. Chen Qian
Ms. Wang Ying

MEMBERS OF THE AUDIT COMMITTEE

Mr. Ding Gang Yi (Chairman)
Mr. Tang Zhen Ming
Mr. Lam Ming Yung

COMPLIANCE OFFICER

Mr. Wang Ya Qun

QUALIFIED ACCOUNTANT

Mr. Yeung Hung Yuen, AHKSA

COMPANY SECRETARY

Mr. Yeung Hung Yuen, AHKSA

AUTHORIZED REPRESENTATIVES

Mr. Liu Xiao Chun
Mr. Yeung Hung Yuen, AHKSA

SPONSOR

Guotai Junan Capital Limited

LEGAL ADVISERS TO THE COMPANY

Sidley Austin Brown & Wood (As to Hong Kong Law)
Jin Mao (As to PRC Law)

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE

No. 65 Siming East Road
Yuyao City
Zhejiang Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1001-02, 10th Floor
Asia Orient Tower, Town Place
33 Lockhart Road
Wanchai
Hong Kong

COMPANY HOMEPAGE/WEBSITE

www.yidongelec.com

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited

PRINCIPAL BANKER

Industrial and Commercial Bank of China

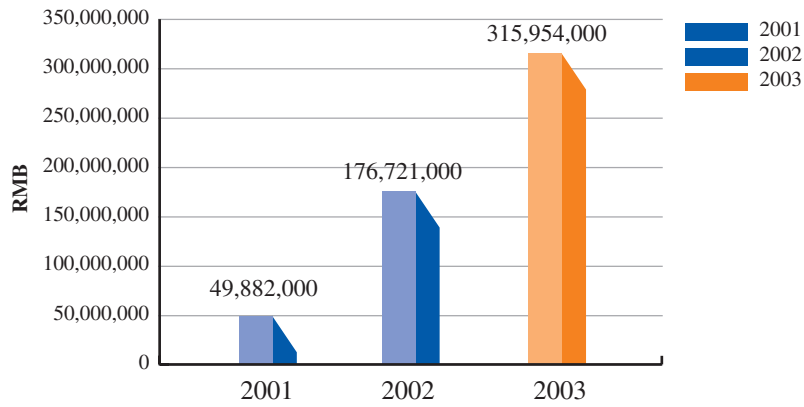
INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

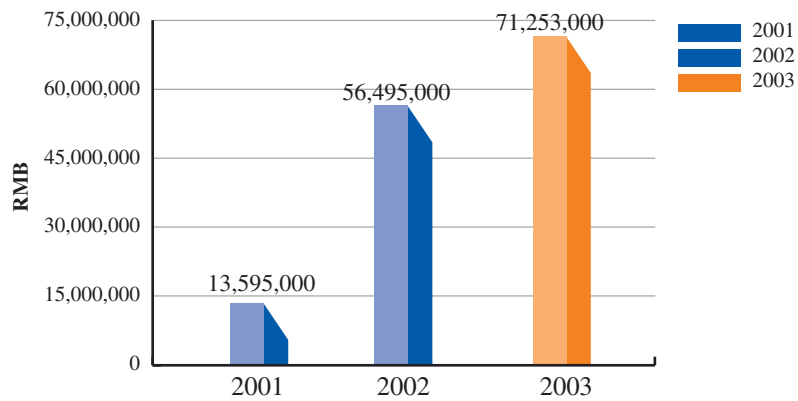
GEM STOCK CODE

8249

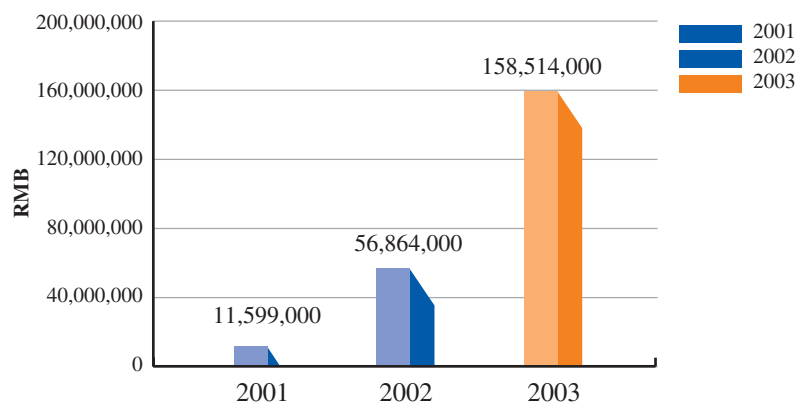
Turnover



Profit Before Tax

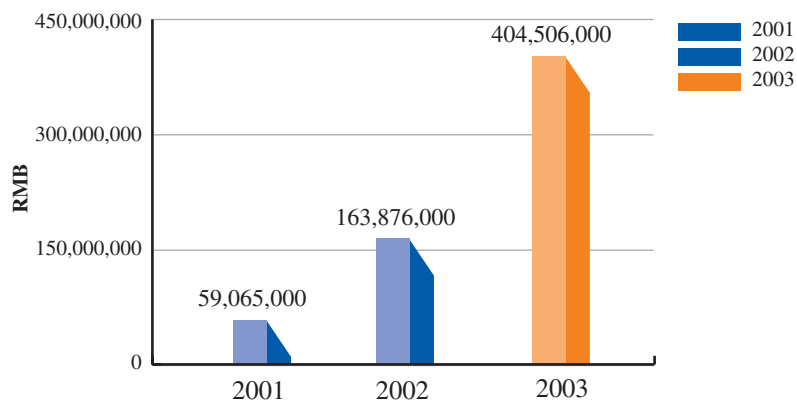


Total Share Capital and Reserve

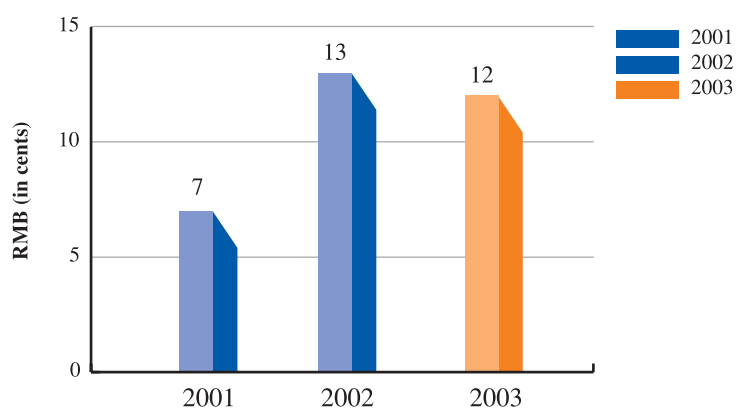


FINANCIAL HIGHLIGHTS

Total Assets



Earning Per Share (Basic)





On behalf of the directors (the "Directors") of Ningbo Yidong Electronic Company Limited (the "Company"), I am pleased to present the first annual results of the Company and its subsidiaries (collectively referred to as the "Group") since its successful listing on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 14 November 2003. Net proceeds of approximately HK\$53 million were raised by the new issue of 130 million shares to the public. The successful listing not only represents recognition of our capabilities among investors, it will also accelerate our development into the future.

The Company was incorporated in Ningbo, the People Republic of China (the "PRC") on 3 August 2000. The Group is principally engaged in the design, manufacture and sale of intelligent controller systems, which can be used for various consumer electrical and electronic appliances, such as air-conditioners, refrigerators, smoke extractors, mobile phones and televisions.

Being the State designated unit for the implementation of the National Major Technological Innovation Project in the research and development (the "R&D") of environmental-friendly controller systems for air-conditioners using fuzzy variable frequency technology, the Group has developed extensive know-how and accumulated widespread experience in this specialized field. As such, we intend to carve out a unique competitive niche in the design and manufacture of intelligent controller systems in the PRC.

With our proprietary technologies, our business objective is to further strengthen the Group's position in the design and manufacture of top quality intelligent controller systems for various consumer electrical and electronic appliances in the PRC.

In 2003, we maintained our focus on our controller systems business which experienced momentous growth. As compared with 2002, the Group's turnover enjoyed considerable growth of 78.8% with net profit increasing by 29.9%. The turnover contribution from the Group's air-conditioner controller systems maintained its position as the main product of the Group, accounting for 72.0% of total sales. Turnover contribution from the manufacturing of mobile phone controller systems and the assembly of mobile phones, accounted for 28.0% of total sales, also contributed to the significant growth in 2003.

CHAIRMAN'S STATEMENT

With the continuing trend for improved living standards in the PRC, the demand for more advanced and sophisticated consumer electrical and electronic appliances such as intelligent air-conditioners and mobile phones, is fuelling the demand for the Group's expertise in the design and manufacture of advanced controller systems. These products, which enable automation and energy saving functions in consumer electrical and electronic appliances products, will continue to increase in the future, especially in the mobile phone market.



Thanks to continuing growth in the PRC's domestic economy, there is a corresponding increase in demand for mobile telecommunications services, in turn reflecting there has been an enormous development potential in the PRC's mobile telecommunications market. The Directors expect the manufacturing of mobile phone controller systems and the assembly of mobile phones to maintain significant growth, with its business increasingly making a major contribution to the Group.

Given the Group's satisfactory financial results in 2003, the Board of Directors recommend a final dividend payment of RMB0.012 per share subject to the approval of shareholders at the Annual General Meeting.

Our fruitful results in 2003 represented not only the support of our business partners but also the commitment and dedication of our management and staff. Therefore, I would like to take this opportunity to express our sincere thanks to our management and staff while also extending my appreciation to our shareholders, business partners, customers and suppliers for their continuing support.

Wang Ya Qun
Chairman

Hong Kong
30 March 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2003, under the leadership of the Board of Directors, the dedication of the staff and the support of our investors, the Company's business activities performed satisfactorily.

The Group is principally engaged in the design, manufacture and sale of intelligent controller systems, which can be used in various consumer electrical and electronic appliances, such as air-conditioners, refrigerators, smoke extractors, mobile phones and televisions.

On 14 November 2003, the Company was successfully listed on the GEM, with its ordinary shares ("H shares") trading under the stock code of 8249. This has established firm foundations for the further growth of the Company's business.

RESULTS

Turnover

For the year ended 31 December 2003, the Group recorded a turnover of approximately RMB315,954,000 (2002: RMB176,721,000), representing an increase of approximately 78.8% over the previous year. This significant increase in the Group's turnover is mainly attributable to the growing demand for the Group's intelligent controllers systems for mobile phones, air-conditioners and televisions.

The following table breaks down the Group's turnover by business activity and geographic region for each of the three years ended 31 December 2003:

By business activity	Year ended 31 December 2001		Year ended 31 December 2002		Year ended 31 December 2003	
	RMB'000	%	RMB'000	%	RMB'000	%
Air-conditioner controller systems	39,646	79.5	143,577	81.3	173,567	54.9
Refrigerator controller systems	1,963	3.9	585	0.3	3,937	1.3
Smoke extractor controller systems	543	1.1	1,350	0.8	3,238	1.0
Fan controller systems	2,671	5.4	1,031	0.6	—	—
Television controller systems	—	—	16,503	9.3	20,131	6.4
Manufacture of mobile phone controller systems and assembly of mobile phones	3,778	7.6	12,204	6.9	88,474	28.0
Other controller systems	1,281	2.5	1,471	0.8	26,607	8.4
TOTAL	49,882	100.0	176,721	100.0	315,954	100.0

MANAGEMENT'S DISCUSSION AND ANALYSIS

By geographic regions	Year ended		Year ended		Year ended	
	31 December 2001		31 December 2002		31 December 2003	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Zhejiang Province	24,787	49.7	70,244	39.8	132,048	41.8
Shandong Province	10,414	20.9	36,453	20.6	35,703	11.3
Guangdong Province	8,222	16.5	34,292	19.4	87,828	27.8
Jiangsu Province	3,285	6.6	23,699	13.4	47,066	14.9
Others*	3,174	6.3	12,033	6.8	13,309	4.2
TOTAL	49,882	100.0	176,721	100.0	315,954	100.0

* Others include Beijing, Henan Province, Shanxi, Shanghai and Yunnan Province.

The significant growth in overall turnover in 2003 was also attributable to the fact that: (1) we have strengthened our reputation in the design and manufacturing of intelligent controller systems for various consumer electrical and electronic appliances, especially for mobile phone, in the PRC; (2) the Group expanded and enhanced its production from 2 production lines to 4 production lines, increased its production facilities by 2 auto insertion machines and 2 SMT machines to accommodate the increase in customer demand, and employed more production staff from 390 as at 31 December 2002 to 629 as at 31 December 2003; (3) the increase in the output of consumer electrical appliance in the PRC. According to the 《2003年國民經濟和社會發展統計公報》 issued by the National Bureau of Statistics of China (國家統計局) on 26 February 2004, the number of air-conditioners manufactured by the PRC manufacturers in 2003 amounted to approximately 49,934,000 sets, an increase of approximately 59.3% from that in 2002; and (4) the increase in the demand for mobile phone controller systems. According to 《電子信息產業經濟運行統計公報》 dated 11 February 2004, mobile phones manufactured by PRC manufacturers amounted to 48.3 million in 2003, accounting for around 54.7% of the PRC's market share. In 2002, mobile phones manufactured by PRC manufacturers only accounted for around 39.2% of market share.

Cost of sales

For the year ended 31 December 2003, the cost of sales for the Group amounted to approximately RMB229,158,000, representing an increase of approximately 108.5% when compared with the previous year.

The costs of sales of the Group mainly include the cost of inventories sold, labour costs and depreciation charges. The cost of inventories sold increased from approximately RMB100,754,000 for the year ended 31 December 2002 to approximately RMB213,915,000 for the year ended 31 December 2003, representing an increase of 112.3%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

When compared with the increase in turnover of approximately 78.8% over the same period, the disproportionate increase in the cost of sales was mainly due to the fact that (1) we adopted a low margin pricing strategy for our television controller systems, designed by the group in 2002, to promote sales; and (2) the profit margin for mobile phone controller systems is lower than that of other controller systems. As the contribution from mobile phone controller systems increased as compared to 2002, the cost of goods increased commensurately.

Gross profit

For the year ended 31 December 2003, the Group achieved an overall gross profit of approximately RMB86,796,000, representing an increase of approximately 29.9% over the previous year. The decrease in the gross profit margin ratio from approximately 37.8% for the year ended 31 December 2002 to approximately 27.5% for the year ended 31 December 2003 was resulted from the fact that (1) the profit margin for mobile phone controller systems is lower than that for other controller systems. As a result, this has affected the overall profit margin; and (2) the Group adopted a lower margin pricing strategy for television controller systems, to promote sales and thus it resulted in decreasing of gross profit.

Other revenues

Other revenues increased from approximately RMB1,047,000 for the year ended 31 December 2002 to approximately RMB5,781,000 for the year ended 31 December 2003. For the year ended 31 December 2003, the Group recorded a one-off subsidy of RMB4.4 million for the R&D of LCD devices. The research project was completed in December 2003.

Selling expenses

For the year ended 31 December 2003, the Group incurred selling expenses of approximately RMB1,529,000, representing an increase of approximately 13.3% against the previous year. When compared with the increase in turnover of approximately 78.8% over the same period, the disproportionate increase was mainly due to the outbreak of the severe acute respiratory syndrome in the region, which led to a corresponding decrease in traveling expenses and entertainment expenses during the first half of the year 2003.

Administrative expenses

For the year ended 31 December 2003, the Group's administrative expenses amounted to approximately RMB16,210,000, representing an increase of approximately 125.5% over the previous year. The Directors attribute the increase mainly to (1) the increase in the number of administrative staff and R&D staff from around 55 and 32 respectively for the year ended 31 December 2002 to around 65 and 43 respectively for the year ended 31 December 2003 to cope with the expansion of the Group's business; (2) the increase in general provisions for doubtful debts resulting from the increase in the trade receivables balance.

Finance costs

Finance costs of approximately RMB3,585,000 represented the interest expenses incurred on bank loans and finance leases for the year ended 31 December 2003.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Profit

For the year ended 31 December 2003, the Group recorded a net profit of approximately RMB47,117,000, representing an increase of approximately 27.8% from the previous year. The net profit margin ratio was approximately 14.9% for the year ended 31 December 2003, as compared to approximately 20.9% for the year ended 31 December 2002. Such decrease was mainly due to the decrease in gross profit margin, the increase in administrative expenses of approximately RMB9,020,000 and finance costs of approximately RMB740,000 for the year ended 31 December 2003.

Taxation

The Group is subject to an income tax rate of 33% on taxable profit in accordance with the income tax laws of the PRC. The effective tax rate for the Group for each of the two years ended 31 December 2003 and 31 December 2002 were 33.7% and 34.7%.

SIGNIFICANT INVESTMENT HELD

As at 31 December 2003, the Group did not have any significant investment.

CHANGES IN THE COMPOSITION OF THE COMPANY

There is no acquisition and disposal of subsidiaries by the Company during the year ended 31 December 2003.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

As at 31 December 2003, the Group has net current assets of approximately RMB54,618,000. Current assets as at that date mainly comprised of prepayments, deposits and other receivables of approximately RMB34,872,000, inventories of approximately RMB61,457,000, bills receivable of approximately RMB6,531,000, trade receivables of approximately RMB88,837,000 and cash and cash equivalents of approximately RMB77,869,000. The increase in net current assets from 31 December 2002 was mainly due to the improvement of the Group's financial position due to the higher turnover during 2003 and net proceeds from listing. Current liabilities mainly comprised of bills payable of approximately RMB3,730,000, trade payables of approximately RMB141,095,000, other payables and accrued charges of approximately RMB11,853,000, current portion of long-term bank loans of approximately RMB9,500,000, receipts in advance of approximately RMB19,786,000 and taxation payable of approximately RMB11,739,000 and short-term bank loans of approximately RMB25,000,000.

Liquidity

As at 31 December 2003, the cash and cash equivalents of the Group amounted to RMB77,869,000. The currencies held are mainly in Renminbi and Hong Kong Dollars. Apart from the net proceeds from listing, the Group's main recurring source of funds for business expansion for the year ended 31 December 2003 was generated from its existing operations. Net cash inflow generated from operations amounted to RMB71,123,000. Because of successful cash management and credit control, as at 30 March 2004, more than 86% of the trade receivables at 31 December 2003 have been received. The Board is confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

Borrowings and banking facilities

As at 31 December 2003, the Group had short-term borrowings of approximately RMB25,000,000 (2002: RMB25,000,000), which is unsecured, interest-bearing and repayable within the next twelve months from the balance sheet date.

Long-term bank loans is a balance of approximately RMB12,000,000 (2002: RMB22,000,000) which is secured by certain fixed assets of the Group (note 13).

The remaining balance of long-term bank loans of RMB5,500,000 as at December 2003 is unsecured. At 31 December 2002, the long-term bank loans of RMB8,000,000 were secured by a guarantee executed by a related company. The guarantee has been released on 20 October 2003.

Gearing ratio

The Group's gearing ratio as at 31 December 2003 was 10.5% (2002: 33.6%), which is expressed as a percentage of the total bank borrowings over the total assets.

Contingent liabilities and commitments

Contingent liabilities and commitments of the Group during the year are set out in notes 29 and 30 to the accounts.

Capital structure and financial resources

As at 31 December 2003, the Group had net assets of approximately RMB158,514,000. The Group's operations and investments are financed principally by our internal resources, bank borrowings and shareholders' equity.

Foreign exchange

Since all of the Company's sales and cost of sales are settled in RMB, the Directors do not consider that the Company is exposed to any material foreign currency exchange risk.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESEARCH AND DEVELOPMENT ("R&D")

The Group's emphasis on R&D is an important key to the Group's success. For the three years ended 31 December 2003, a total of approximately RMB1,516,000, RMB1,409,000 and RMB3,167,000 (note 1) were spent on R&D respectively by the Group. This represents approximately 3.0%, 0.8% and 1.0% respectively of the Group's turnover during the respective periods.

Note 1: including salary and staff retirement contribution of R&D staff and other R&D expenses.

The Group has successfully applied fuzzy variable frequency technology to our controller systems in the past, and we intend to build on this know-how in the development of controller systems for (1) telecommunication devices; and (2) advanced TFT-LCD devices such as LCD TVs and monitors.

To assist the Group's R&D on technology relating to LCD devices, in December 2002, the Yuyao City Science and Technology Bureau and Yuyao City Finance Bureau jointly approved the Company's research project on LCD TVs and monitors as a technology project which entitles the Company to a one-off subsidy of RMB4.4 million. The subsidy was granted in December 2002. The research project was completed as controller systems for small-sized TFT-LCD devices were successfully developed in December 2003.

EMPLOYEES AND REMUNERATION POLICIES

An analysis of employees by their duties as at each of the three years ended 31 December 2003 is set out below:

Functions

	Headcount for the year ended 31 December		
	2001	2002	2003
Sales and marketing	11	19	31
R&D	25	32	43
Production (including quality control)	271	390	629
Finance and administration	41	55	65
Procurement	7	5	17
	<u>355</u>	<u>501</u>	<u>785</u>

Total staff costs paid during the year was approximately RMB8,545,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

STAFF RETIREMENT SCHEME

Under relevant local government regulations, the Group is required to make contributions to a defined contribution retirement scheme for all qualified employees in the PRC. The Company has, in compliance with relevant local government regulations, made payment for such scheme during the year. The Group has no obligation for the payment of other retirement and non-retirement benefits of employees other than the contributions described above.

Details of staff retirement scheme of the Group are set out in note 10(a) to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group had 785 employees (2002: 501 employees). Remuneration is determined by reference to market terms and the performance, qualifications, and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme.

STAFF QUARTERS

Workers and staff of the Group are provided with accommodation within the vicinity of the Group's production facilities premises at No. 65 Siming Road East, Yuyao City. The Directors confirm that, apart from the above accommodation, there is no other housing benefit provided by the Group to its staff.

RELATIONSHIP WITH EMPLOYEES

The Group has not experienced any significant labour disputes or strikes which have led to the disruption of its normal business operations. The Directors consider that the Group's relationship with its employees to be good.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and Senior Management are set out on page 18 to page 20.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals in the Company are set out in note 11 to the financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

PROSPECTS

With more than 200 million mobile phone users, and an expected growth rate of 13-20% in the next few years, China is emerging as the world's leading mobile phone market. The Chinese government recognizes the need and future benefits of the mobile phone market and its High and New Technology Research and Development Program (program 863) is speeding up the development and commercial operation of 3G, which has an expected value of one trillion yuan by the year 2010.

The Group recognises the potential for growth and profit in this industry and is allocating more resources in terms of production capacity and R&D. The mobile phone controller systems manufacturing and mobile phones assembly business will become an important growth drivers for the Group.

The Group also plans to invest further in R&D to upgrade the technology used in our products. In addition to the further recruitment of technicians both locally and from Taiwan, and the purchase of new equipment, we will continue to undertake technological research in collaboration with various universities and institutes such as the Beijing Institute of Technology and University of National Defence Technology, and pursue strategic alliances with other hi-tech enterprises. We plan to expand our business into the R&D of other IT products such as controller systems for TFT-LCD devices and controller systems for telecommunication devices.

Looking ahead, the Group will continue to leverage on its R&D capabilities, well-established customers base and highly-recognized brand to further heighten its leading position in intelligent electronic controller systems market.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

To attain our long-term business goal, the Group has set out implementation plans on pages 83 to 84 of the prospectus of the Company dated 30 October 2003, over the period from 17 October 2003 to 31 December 2003. The actual progress of these plans over that period is explained as follows:

Business objective as set out in the prospectus	Actual business progress up to 31 December 2003
<i>1. Expansion on production capability and volume</i>	
Set up one production line with 1 high speed components insertion machine and 2 high speed SMT machines	The Company has negotiated with the supplier for supplying the machines
Batch production of controller systems for hands-free ear phones	Batch production has been launched
<i>2. Strengthening of R&D capability and development of new products</i>	
Continue with the research on fuzzy frequency conversion technology for controller systems in air-conditioners and refrigerators	R&D department has continued with the research
R&D on fuzzy controller systems for car head lamps and automated doors	R&D department has started the research
R&D on controller systems for telecommunication devices and small-sized TFT-LCD devices	The research project was completed by the end of 2003
Increase the number of R&D personnel with additional senior engineers and design engineers by approximately 3 staff	3 R&D staff were recruited
<i>3. Sales and marketing</i>	
Set up sales points in Hong Kong, Guangzhou and Beijing and assess the feasibility of setting up additional sales points outside the PRC	A sales representative office in Hong Kong has been set up. The sale and marketing department was conducting feasibility studies of setting up additional sales points outside the PRC
Attend local and overseas exhibitions and trade shows in places such as Taiwan and Japan	The Company has attended exhibitions in Hong Kong, Taiwan and Ningbo
Organise the Group's own trade exhibition and conferences	Implemented as planned
Advertise in trade magazines and other media	The Company has advertised in major mass media in China such as outdoor advertising in highway



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as set out in the prospectus	Actual business progress up to 31 December 2003
Increase the number of sales personnel by approximately 5 staff	5 sales staff were recruited
<i>4. Enhancement of management system and training for employees</i>	
Review, analyze and improve the Group's existing overall management IT system	Implemented as planned
Implement effective internal control and monitoring system	The Company has completed ISO9002 2003 version
Implement plans on trainings for management and technical staff	Training programs have been launched

During the year ended 31 December 2003, the Company has applied the net proceeds from the listing as follows:

Anticipated use of net proceeds as at 31 December 2003 as set out in the prospectus	Actual amount used as at 31 December 2003
Approximately HK\$10 million for expansion on production capability and volume	Around HK\$3.5 million has spent on expansion on production capability and volume (note 1)
Approximately HK\$3 million for R&D capacity and development of new products	Around HK\$3 million on R&D has spent on research and development capabilities
Approximately HK\$2 million for sales and marketing	Around HK\$1.5 million has spent on sales and marketing activities (note 2)
Approximately HK\$0.5 million for enhancement of management system and trainings offered to employees.	Around HK\$0.5 million has spent on enhancement of management system and training program

The Directors believe that the proceeds is sufficient for covering all stated objectives in the relevant periods stated in the prospectus dated 30 October 2003.

Note 1: The purchases of new machinery have been delayed because the Company has to further negotiate with the suppliers for better terms.

Note 2: The establishments of the sales points in Guangzhou and Beijing are still in process and thus the payments for establishing these offices have been delayed.



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

The Board consists of 8 Directors including 4 executive Directors, 1 non-executive Director and 3 independent non-executive Directors.

Executive Directors

Mr. Wang Ya Qun, aged 42, is a founder of the Group and an executive Director and the chairman of the Board. Mr. Wang obtained a Master degree in engineering from the Beijing Institute of Technology in March 1994. Apart from his technical knowledge and experience, he has over 3 years of experience in manufacturing and management gained in various corporations such as China Changcheng Group Co., Ltd. and Ningbo Handa before founding Yidong Electronic in August 2000. He is responsible for overseeing the overall operation, sales and marketing, and strategic planning of the Group.

Mr. Liu Xiao Chun, aged 36, is an executive Director and the vice chairman of the Company. Mr. Liu graduated from the Beijing Chemical Fibre Industrial Institute in July 1987 with a bachelor degree in engineering majoring in automation of manufacturing process. Mr. Liu had worked with Beijing Printing and Dyeing Factory, Dongguang Chuangwei Electronics Co., Ltd., Shenzhen Zhongshanglong Enterprise Development Co., Ltd., and has over 13 years of experience in manufacturing and management and is responsible for sales and marketing of the Company. Currently, he is also a director of China Ruilian. He joined the Group in December 2001.

Mr. Chen Zheng Tu, aged 52, is a founder of the Group and an executive Director. Mr. Chen had worked with Yuyao 2nd Automobile Electrical Equipment Factory and has over 22 years of experience in the manufacturing industry. He is responsible for the strategic planning and corporate promotion of the Company.

Mr. Wang Pei Zhang, aged 50, is an executive Director and the general manager of the Company. He completed a postgraduate course in business administration of the Capital Economics and Trade University in December 1999. Mr. Wang had worked with Tianjin Greatwall Electronics Corp. and Tianjin Great Wall (Group) Corporation and has over 29 years of experience in manufacturing and management, and is responsible for overseeing the general administration and operation of the Group. He joined the Group since December 2001.

Non-executive Director

Mr. Li Ming, aged 41, is a non-executive Director. Mr. Li graduated from Jiangxi Finance Institute majoring in planning statistics in July 1985. He had worked with Dongguang Chuangwei Electronics Co., Ltd. and has worked with CECC since 1992. He has over 11 years of experience in the electronics industry. Currently, he is also the Chairman of China Ruilian. He joined the Group in December 2001.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Tang Zhen Ming, aged 40, is an independent non-executive Director. He graduated from the Beijing Institute of Technology with a doctorate degree in engineering in March 1994. He had worked with Beijing Institute of Technology Industrial Company and is now working with Beijing ChinaSoft FE International Information Technology Ltd. and he has over 8 years of experience in management and administration. He joined the Group as an independent non-executive Director in December 2001.

Mr. Ding Gang Yi, aged 38 is an independent non-executive Director. He graduated from the Beijing Institute of Technology with a doctorate degree in engineering in September 1993. He is currently an associate professor and the Sub-Dean of the School of Software of the Beijing Institute of Technology. He joined the Group as an independent non-executive Director in December 2001.

Mr. Lam Ming Yung, aged 40, was appointed as an independent non-executive Director in July 2003. He graduated from the School of Law of East China University of Politics and Law and was awarded the degree of bachelor of law in July 1986. Mr. Lam started practising law in 1986 in Fujian Province in the PRC. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is now practising as a senior legal consultant of PRC corporate securities law in the Hong Kong office of Sidley Austin Brown & Wood, an international law firm.

Supervisors

Mr. Zhang Xing Jiang, aged 35, is a Supervisor and does not hold any other position in the Group. He is currently the manager of corporate banking of Industrial and Commerce Bank of China, Yuyao City Branch and has over 8 years of experience in the banking sector.

Mr. Chen Qian, aged 32, is a Supervisor and does not hold any other position in the Group. He has completed a postgraduate course in finance in the Hunan Finance College in February 1999. He is currently also a director of a company in Xian mainly engaged in the R&D and sales of electronic chemicals.

Ms. Wang Ying, aged 44, is a Supervisor and the manager of the R&D department of the Group. Please refer to the section "Senior management" below for details of her qualification and experience.

Senior management

Mr. Peng Tie Jian, aged 32, is the chief financial controller of the Group and the Secretary to the Board of Directors of the Company. He graduated from the Hunan Finance College in July 1994. Mr. Peng had worked with Hunan Cable-wire Group Co., Ltd., Gold Quick (Hong Kong) Industrial Limited, Shenzhen Sansui and Sanbakia Electronics Co., Ltd. and Xibei Bearing Co., Ltd. and has over 8 years of experience in financial works. He is responsible for overseeing the finance aspects of the Group. He joined the Group since January 2002.

Mr. Sun Li Chun, aged 39, is the assistant to the general manager of the Group. He graduated from the Tianjin Business College with a bachelor degree in engineering in July 1989. Mr. Sun had worked with Ningbo Handa and has over 3 years of experience in sales and marketing. He joined the Group since August 2000 and is responsible for overseeing the sales and marketing aspects of the Group.



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Wang Ying, aged 44, is the manager of R&D Department. She graduated from the Tai Yuan Industrial Institute in August 1982 with a bachelor degree in engineering majoring in electronic engineering. She is a senior engineer and had worked with Liujibu Taiyuan Fenxi Machinery Factory and Hangzhou Dongbao Air Conditioner Factory. She has over 17 years of experience in R&D works. Ms. Wang is responsible for overseeing the R&D Department of the Group. She joined the Group since April 2001.

Mr. Zhang Wen Gang, aged 38, is the finance manager of the Group. Mr. Zhang had worked with Yuyao Light Industry Machine Factory, Yuyao Kuangshan Machine Factory, and Yuyao 2nd Light Industry Co., Ltd. and has over 15 years of experience in accounting and financial works. He is involved in the accounting aspects of the Group. He joined the Group since May 2001.

Mr. Hong Hua, aged 30, is the manager of inventory and procurement department. He graduated from Jiangxi Province Coal Industrial College in June 1995 majoring in automobile application and maintenance. Mr. Hong had worked with Ningbo Handa and has over 4 years of experience in purchasing. He is responsible for overseeing the material purchasing aspects of the Group. He joined the Group since August 2000.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Yeung Hung Yuen, aged 33, had worked with Nanyang Commercial Bank Ltd., the Dai-Ichi Kangyo Bank Limited and APP (Hong Kong) Limited and has over 10 years of experience in the fields of accounting and banking. Mr. Yeung received a bachelor degree of Arts in Business Studies from the Hong Kong Polytechnic in November 1993. He is currently an associate member of The Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. He joined the Group since June 2003.

The Directors submit their first report together with the audited accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is the design, manufacture and sale of intelligent controller systems for various consumer electrical and electronic appliances and the assembly of mobile phones. Details of the principal activities of its subsidiaries are set out in note 14 to the accounts.

An analysis of the Group's performance for the year by business and geographic segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss accounts on page 29.

The Directors have declared an interim dividend of RMB0.011 per ordinary share, totalling RMB400,000, of which RMB380,000 was paid in January 2003 and RMB20,000 was remained outstanding as at year ended 31 December 2003.

The Directors recommend the payment of a final dividend of RMB0.012 per share, totaling RMB6,000,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the accounts.

FIXED ASSETS

Details of movements in fixed assets of the Group and the Company are set out in note 13 to the accounts.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in note 24 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2003, calculated under the Company Law of the PRC, being the jurisdiction in which the Company was established, amounted to RMB55,409,000 (2002: RMB16,882,000).



REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there was no restriction against such rights under the laws of the PRC, which would oblige the Company to offer new shares on a pro-rate basis to existing shareholders.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last four financial years since its incorporation is set out on page 72.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 14 November 2003, the Company commenced the trading of its ordinary shares (the "H shares") on the GEM of the Stock Exchange.

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

As at the date of this report, no option has been granted or agreed to be granted by the Company to any of its Directors, Supervisors or employees of the Company or its subsidiaries.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Wang Ya Qun
Mr. Liu Xiao Chun
Mr. Chen Zheng Tu
Mr. Wang Pei Zhang

Non-executive Director

Mr. Li Ming

Independent non-executive Directors

Mr. Tang Zhen Ming
Mr. Ding Gang Yi
Mr. Lam Ming Yung (appointed on 17 July 2003)

Supervisors

Mr. Zhang Xing Jiang
Mr. Chen Qian
Ms. Wang Ying

Members of the audit committee

Mr. Ding Gang Yi (Chairman)
Mr. Tang Zhen Ming
Mr. Lam Ming Yung

In accordance with Articles 89 and 112 of the Company's Articles of Association, all the Directors and Supervisors shall be elected at the shareholders' general meeting for a term of three years. A director or supervisor may serve consecutive terms if re-elected upon the expiration of the terms.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out from page 18 to page 20.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years from his/her date of appointment as a Director or, as the case may be, as a Supervisor (other than Mr. Lam Ming Yung whose term of office as a Director is from 17 July 2003 to 2 September 2005) and thereafter subject to termination by either party giving not less than one month's written notice to the other party.

Save as disclosed above, no Directors or Supervisors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Apart from the Directors' and Supervisors' service contracts disclosed above, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director or a Supervisor 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.

REPORT OF THE DIRECTORS

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN THE SHARES OF THE COMPANY

At 31 December 2003, the interests and short positions of each Directors, Chief Executives and Supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rules 5.40 to 5.58 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

(a) Ordinary shares of RMB0.10 each of the Company at 31 December 2003:

Name of Director/ Chief Executive/ Supervisor	Number of Domestic Shares of RMB0.10 each (the "Domestic Shares") held	Nature of interest	Long/short position	Approximate percentage of shareholding in same class of securities	Approximate percentage of shareholding in the registered capital
Mr. Wang Ya Qun	129,500,000 Domestic Shares (note 2)	Beneficial owner	Long position	35.0%	25.9%
Mr. Li Ming	129,500,000 Domestic Shares (note 2)	Interest of controlled corporation (note 1)	Long position	35.0% (note 1)	25.9%
Mr. Chen Zheng Tu	92,500,000 Domestic Shares (note 2)	Beneficial owner	Long position	25.0%	18.5%

Notes:

- (1) Mr. Li Ming is not registered a shareholder of the Company. His indirect shareholding interest in 129,500,000 shares of the Company is held through Shenzhen Ruilian Investment Co., Ltd. ("Shenzhen Ruilian"), which holds a 90.0% direct interest in China Ruilian Holding Corp. ("China Ruilian"), a registered shareholder of the Company.

Both Shenzhen Ruilian and China Ruilian are established and based in the PRC. Mr. Li Ming holds a direct interest of 42.0% in Shenzhen Ruilian.

- (2) Domestic Shares of a nominal value of RMB0.10 each, in the registered share capital of the Company, which are subscribed for or credited as paid up in Renminbi.

Except as disclosed above, at no time during the year, the Directors, Chief Executives and Supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations (within the meaning of SFO).

Apart from the above, at no time during the year was the Company and its subsidiaries a party to any arrangement to enable the Directors, Chief Executives and Supervisors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 December 2003, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors, Chief Executives and Supervisors.

Name of Shareholder	Number of shares held	Nature of interest	Long/short position	Approximate percentage of shareholding in same class of securities	Approximate percentage of shareholding in the registered capital
China Ruilian	129,500,000 Domestic Shares (note 1 above)	Beneficial owner	Long position	35%	25.9%
Shenzhen Ruilian	129,500,000 Domestic Shares (note 1 above)	Interest of controlled corporation	Long position	35%	25.9%
Martin Currie China Hedge Fund Limited	21,345,000 H Shares (note 1)	Investment manager	Long position	16.4%	4.3%
Dai Huan	8,200,000 H Shares	Beneficial owner	Long position	6.3%	1.6%

Note:

- (1) "H Share(s)" overseas listed foreign invested share(s) of a nominal value of RMB0.10 each in the registered share capital of the Company, which are listed on the GEM and subscribed for and traded in Hong Kong dollars.



REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

— the largest customer	21.0%
— five largest customers combined	70.8%

Purchases

— the largest supplier	12.3%
— five largest suppliers combined	43.3%

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

CONNECTED TRANSACTION

In December 2003, the Company advanced a total sum of RMB12 million to Xian Ruilian Modern Electronic Chemicals Co., Ltd ("Xian Ruilian") which is an associated company of China Ruilian Holding Corp., a shareholder of the Company. Prior to the year end, Xian Ruilian repaid a sum of RMB10 million to the Company. The amount due from Xian Ruilian was unsecured, interest bearing at 5.4% per annum and had no fixed terms of repayment. The remaining RMB2 million and the interest payable of approximately RMB10,000 as at 31 December 2003 were subsequently settled on 16 February 2004 and 25 March 2004 respectively.

COMPETING INTERESTS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in any business that directly or indirectly competes with the business of the Group or has any other conflicts of interest.

SPONSOR'S INTERESTS

Pursuant to the sponsorship agreement dated 31 October 2003 between the Company and Guotai Junan Capital Limited ("Guotai Junan"), Guotai Junan has been appointed as the retained sponsor of the Company as required under the GEM Listing Rules at a fee from 14 November 2003 to 31 December 2005.

To the best knowledge of Guotai Junan, neither Guotai Junan nor its Directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or any other member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any other member of the Group as at 31 December 2003.

AUDIT COMMITTEE

The Company has established an audit committee since 1 June 2003. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation.

The Audit Committee comprises three independent non-executive Directors of the Company, namely Mr. Ding Gang Yi, who is the Chairman of such committee, Mr. Tang Zhen Ming and Mr. Lam Ming Yung.

Two meetings were held up to the date of this report.

SUBSEQUENT EVENTS

On 5 January 2004, the Group set up a wholly owned subsidiary, Fine Best Technology Limited, in Hong Kong. On 13 February 2004, the Group set up an associated company, Ningbo Bolang Electrical Appliance Co., Ltd, in which the Group holds an equity interest of 45%. The Group injected RMB1,350,000 into the associated company on 11 February 2004.

The above companies are newly established and they have not been involved in any significant business transactions up to the date of this report.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Wang Ya Qun
Chairman

Ningbo, The PRC, 30 March 2003



AUDITORS' REPORT

TO THE SHAREHOLDERS OF NINGBO YIDONG ELECTRONIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 29 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	3	315,954	176,721
Cost of sales		<u>(229,158)</u>	<u>(109,889)</u>
Gross profit		86,796	66,832
Other revenues	3	5,781	1,047
Selling expenses		(1,529)	(1,349)
Administrative expenses		<u>(16,210)</u>	<u>(7,190)</u>
Operating profit	4	74,838	59,340
Finance costs	5	<u>(3,585)</u>	<u>(2,845)</u>
Profit before taxation		71,253	56,495
Taxation	6	<u>(24,032)</u>	<u>(19,632)</u>
Profit after taxation		47,221	36,863
Minority interests		<u>(104)</u>	<u>—</u>
Profit attributable to shareholders	7	<u>47,117</u>	<u>36,863</u>
Dividends	8	<u>6,400</u>	<u>114</u>
Basic earnings per share	9	<u>RMB0.12</u>	<u>RMB0.13</u>
Diluted earnings per share		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Goodwill	12	373	608
Fixed assets	13	120,848	91,981
Deferred tax assets	26	3,057	3,292
		<u>124,278</u>	<u>95,881</u>
Current assets			
Inventories	15	61,457	7,245
Bills receivable	16	6,531	330
Trade receivables	16	88,837	13,812
Other receivables, deposits and prepayments		34,872	13,898
Amounts due from a director and a shareholder	17	4,787	—
Amounts due from related companies	18	2,205	195
Bank balances and cash		77,869	31,515
Pledged bank deposits	20	3,670	1,000
		<u>280,228</u>	<u>67,995</u>
Current liabilities			
Bills payable	21	3,730	1,000
Trade payables	21	141,095	8,479
Other payables and accrued charges		11,853	14,182
Receipts in advance		19,786	1,413
Taxation payable		11,739	9,383
Dividend payable		20	114
Short-term bank loans	22	25,000	25,000
Current portion of amount due to a minority shareholder of a subsidiary	19	—	75
Current portion of deferred revenue	27	2,728	4,592
Current portion of long-term liabilities	23	9,659	—
		<u>225,610</u>	<u>64,238</u>
Net current assets		<u>54,618</u>	<u>3,757</u>
		<u>178,896</u>	<u>99,638</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Financed by:			
Share capital	24	50,000	37,000
Other reserves	25	53,060	2,982
Retained earnings			
Proposed final dividend	25	6,000	—
Others	25	49,454	16,882
		<hr/>	<hr/>
Shareholders' funds		158,514	56,864
Minority interests		5,739	2,450
Non-current liabilities			
Amount due to a minority shareholder of a subsidiary	19	—	4,940
Deferred revenue	27	6,536	5,384
Long-term liabilities	23	8,107	30,000
		<hr/>	<hr/>
		178,896	99,638
		<hr/> <hr/>	<hr/> <hr/>

Wang Ya Qun

Director

Liu Xiao Chun

Director

BALANCE SHEET

As at 31 December 2003

	Note	Company	
		2003 RMB'000	2002 RMB'000
Non-current assets			
Goodwill	12	373	608
Fixed assets	13	80,991	91,981
Investments in subsidiaries	14	32,526	2,557
Deferred tax assets	26	3,057	3,292
		<u>116,947</u>	<u>98,438</u>
Current assets			
Inventories	15	61,454	7,245
Bills receivable	16	6,531	330
Trade receivables	16	88,837	13,812
Other receivables, deposits and prepayments		33,767	9,686
Amounts due from a director and a shareholder	17	4,787	—
Amounts due from related companies	18	2,205	195
Bank balances and cash		77,672	30,717
Pledged bank deposits	20	3,670	1,000
		<u>278,923</u>	<u>62,985</u>
Current liabilities			
Bills payable	21	3,730	1,000
Trade payables	21	141,095	8,479
Other payables and accrued charges		9,330	14,179
Receipts in advance		19,786	1,413
Taxation payable		11,739	9,383
Dividend payable		20	114
Short-term bank loans	22	25,000	25,000
Current portion of amount due to a minority shareholder of a subsidiary	19	—	75
Current portion of deferred revenue	27	2,728	4,592
Current portion of long-term liabilities	23	9,500	—
		<u>222,928</u>	<u>64,235</u>
Net current assets/(liabilities)		<u>55,995</u>	<u>(1,250)</u>
		<u>172,942</u>	<u>97,188</u>



BALANCE SHEET

As at 31 December 2003

	Note	Company	
		2003 RMB'000	2002 RMB'000
Financed by:			
Share capital	24	50,000	37,000
Other reserves	25	52,997	2,982
Retained earnings			
Proposed final dividend	25	6,000	—
Others	25	49,409	16,882
Shareholders' funds		158,406	56,864
Non-current liabilities			
Amount due to a minority shareholder of a subsidiary	19	—	4,940
Deferred revenue	27	6,536	5,384
Long-term liabilities	23	8,000	30,000
		172,942	97,188

Wang Ya Qun

Director

Liu Xiao Chun

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	<i>Note</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Total equity as at 1 January		56,864	11,599
Profit for the year		47,117	36,863
Issue of shares	24 & 25	69,550	10,000
Share issuance costs	25	(14,617)	(1,484)
Dividends	8 & 25	(400)	(114)
Total equity as at 31 December		<u>158,514</u>	<u>56,864</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Operating activities			
Net cash inflow generated from operations	28(a)	71,123	65,357
Interest on bank loans paid		(3,569)	(2,845)
PRC income tax paid		(21,441)	(18,015)
Net cash inflow from operating activities		46,113	44,497
Investing activities			
Interest received		310	124
Purchases of fixed assets (note(a) below)		(42,356)	(49,562)
Net cash outflow from investing activities		(42,046)	(49,438)
Net cash inflow/(outflow) before financing		4,067	(4,941)
Financing activities			
Increase in pledged bank deposits	28(b)	(2,670)	(200)
Injection of capital		—	10,000
Issue of H shares		69,550	—
Share issuance costs		(14,617)	(1,284)
Capital contribution by minority shareholders		3,185	2,450
New bank loans raised		65,000	37,000
Repayment of bank loans		(77,500)	(14,000)
Capital element of finance leases payments		(151)	—
Interest element of finance leases payments		(16)	—
Dividend paid		(494)	—
Net cash inflow from financing activities		42,287	33,966
Increase in cash and cash equivalents		46,354	29,025
Cash and cash equivalents at 1 January		31,515	2,490
Cash and cash equivalents at 31 December		77,869	31,515
Analysis of balances of cash and cash equivalents:			
Bank balances and cash (note(b) below)		77,869	31,515

Notes:

- (a) Cash outflow for the purchases of fixed assets during the year ended 31 December 2003 was composed of the cash paid for the additions of fixed assets of approximately RMB37,341,000 (note 28(c)) and the settlement for the purchase of fixed assets from a minority shareholder of a subsidiary of approximately RMB5,015,000 (note 32(a)).
- (b) The above bank balances and cash of approximately RMB53,240,000 (2002: RMB31,515,000) were denominated in Renminbi ("RMB") and RMB24,629,000 (2002: Nil) were denominated in Hong Kong Dollars.

In addition, pledged bank deposits of approximately RMB3,670,000 (2002: RMB1,000,000) were denominated in RMB, as shown in the balance sheet of the Group and of the Company.

All these bank deposits were deposited with banks in the People's Republic of China (the "PRC"). The conversion of the RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC.



NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

1 BACKGROUND INFORMATION

Ningbo Yidong Electronic Company Limited (the "Company") was established in the PRC on 3 August 2000 as a limited liability company with an initial registered capital of RMB5,000,000.

Pursuant to the capital injection of RMB10,000,000 on 23 May 2002 from the existing or the then existing shareholders of the Company and the capitalisation of reserves of RMB22,000,000 of the Company on 18 September 2002, the registered capital of the Company was increased from RMB5,000,000 to RMB37,000,000.

On 18 September 2002, the Company was transformed into a joint stock company with limited liability.

The registered capital of the Company was RMB37,000,000 after the conversion as mentioned above, being represented by 37,000,000 shares at a par value of RMB1.00 each, all of which were issued and fully paid. Pursuant to an approval dated 4 June 2003 issued by the China Securities Regulatory Commission, each share of the Company with a par value of RMB1.00 each was sub-divided into ten shares with a par value of RMB0.10 each.

On 14 November 2003, the Company commenced the trading of the newly issued 130,000,000 ordinary shares ("H shares") of RMB0.10 each on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 117,000,000 H shares to institutional investors by way of placement and 13,000,000 H shares for subscription by members of the public in Hong Kong under the Public Offer at the Offer Price.

As at the date of this report, the Company has direct interests of 51% in both of its subsidiaries, Ningbo Yitai Electronic Company Limited and Ningbo Hi-Tech Park Yitian Technology Company Limited.

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacture and sale of intelligent controller systems for various consumer electrical and electronic appliances and the assembly of mobile phones in the PRC. The reporting currency of the Group is RMB.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired business at the date of acquisition.

Goodwill arising on acquisitions is separately shown on the balance sheet and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the business to expand its product or geographical market coverage is amortised over a period of 5 years.

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land and buildings	3.33% - 5%
Plant and machinery	10% - 20%
Computer and office equipment	20%
Motor vehicles	20%

Construction in progress is stated at cost less accumulated impairment losses. Cost comprises direct costs of acquisition. Capitalisation of the cost ceases and the asset concerned is transferred to fixed assets when substantially all the activities necessary to prepare the asset for its intended use are completed.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Assets under leases *(continued)*

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(g) Inventories

Inventories comprise raw materials, work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.



NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Retirement benefits costs

The Group contributes to a defined contribution retirement scheme which is available to eligible employees, the assets of which are held in separate trustee administered funds. The Group's contributions to the defined contribution retirement scheme in accordance with local rules and regulations are expensed as incurred and there are no provisions under these schemes whereby forfeited contributions may be used to reduce future contributions.

(l) Deferred revenue and government grant

Deferred revenue represents the portion of income relating to the unexpired period of government grants. A government grant is initially recognised as deferred revenue, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Grants relating to assets are recognised in the accounts on a systematic basis over the useful life of the asset.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred revenue and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

2 PRINCIPAL ACCOUNTING POLICIES (continued)**(n) Translation of foreign currencies**

Transactions in foreign currencies are translated into RMB at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(o) Revenue recognition

Revenue from the sales of goods and scrap materials is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Contract assembly services income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(p) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over the estimated commercial lives of the underlying products of not more than 5 years, commencing from the date when the products are put into commercial production, to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

During the year, all research and development costs incurred have been expensed to the profit and loss account as no such costs satisfied the criteria for capitalisation as an asset.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format.

No geographical segment is presented since more than 90% of the Group's assets, liabilities and capital expenditure for the year were located or utilised in the PRC.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and deposits and prepayments, and mainly exclude goodwill, deferred tax assets, amounts due from a director, a shareholder and related companies, bank balances and cash and pledged bank deposits. Segment liabilities comprise operating liabilities and exclude items such as taxation, dividend payable and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

3 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the design, manufacture and sale of intelligent controller systems for various consumer electrical and electronic appliances and the assembly of mobile phones in the PRC. Turnover is stated net of value added tax. Revenues recognised during the year are as follows:

	Group	
	2003 RMB'000	2002 RMB'000
Turnover		
Sales of controller systems for consumer electrical and electronic appliances	227,480	164,517
Manufacture of mobile phone controller systems and assembly of mobile phones	88,474	12,204
	<u>315,954</u>	<u>176,721</u>
Other revenues		
Income on government grants	4,592	24
Bank interest income	310	124
Interest income on an advances to a related company (note 18(b))	10	—
Sales of scrap materials	686	—
Others	183	899
	<u>5,781</u>	<u>1,047</u>
Total revenues	<u>321,735</u>	<u>177,768</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments

	Controller systems for consumer electrical and electronic appliances 2003 <i>RMB'000</i>	Manufacture of mobile phone controller systems and assembly of mobile phones 2003 <i>RMB'000</i>	Group 2003 <i>RMB'000</i>
Turnover	227,480	88,474	315,954
Segment results	78,863	10,539	89,402
Unallocated revenues			5,781
Unallocated costs			(20,345)
Operating profit			74,838
Finance costs			(3,585)
Profit before taxation			71,253
Taxation			(24,032)
Profit after taxation			47,221
Minority interests			(104)
Profit attributable to shareholders			47,117
Segment assets	105,674	171,830	277,504
Unallocated assets			127,002
Total assets			404,506
Segment liabilities	10,151	150,634	160,785
Unallocated liabilities			79,468
Total liabilities			240,253
Capital expenditure	27,112	2,197	29,309
Unallocated capital expenditure			8,449
			37,758
Depreciation	5,116	2,708	7,824
Unallocated depreciation			1,067
			8,891
Amortisation charge			235
Other non-cash expenses			4,262

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments

	Controller systems for consumer electrical and electronic appliances 2002 RMB'000	Manufacture of mobile phone controller systems and assembly of mobile phones 2002 RMB'000	Group 2002 RMB'000
Turnover	164,517	12,204	176,721
Segment results	67,691	1,113	68,804
Unallocated revenues			1,047
Unallocated costs			(10,511)
Operating profit			59,340
Finance costs			(2,845)
Profit before taxation			56,495
Taxation			(19,632)
Profit after taxation			36,863
Minority interests			—
Profit attributable to shareholders			36,863
Segment assets	68,401	32,022	100,423
Unallocated assets			63,453
Total assets			163,876
Segment liabilities	11,521	6,678	18,199
Unallocated liabilities			86,363
Total liabilities			104,562
Capital expenditure	27,319	25,743	53,062
Unallocated capital expenditure			1,515
			54,577
Depreciation	1,363	471	1,834
Unallocated depreciation			662
			2,496
Amortisation charge			235
Other non-cash expenses			1,686

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2003 RMB'000	2002 RMB'000
Crediting		
Income on government grants recognised in respect of:		
Subsidy for purchases of fixed assets	192	24
Subsidy for a research project	<u>4,400</u>	<u>—</u>
Charging		
Auditors' remuneration	856	140
Amortisation of goodwill	235	235
Cost of inventories sold	213,915	100,754
Depreciation of owned fixed assets	8,782	2,496
Depreciation of leased fixed assets	109	—
Write-off of fixed assets	—	118
Operating lease rentals in respect of land and buildings	47	—
Provision for doubtful debts and prepayments	4,211	1,332
Provision for slow-moving and obsolete inventories	51	236
Research and development costs	1,479	800
Staff costs (including directors' emoluments) (note 10)	<u>8,545</u>	<u>4,801</u>

5 FINANCE COSTS

	Group	
	2003 RMB'000	2002 RMB'000
Interest on bank loans	3,569	2,845
Interest on finance leases	<u>16</u>	<u>—</u>
	<u>3,585</u>	<u>2,845</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

6 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2003 RMB'000	2002 RMB'000
Current taxation:		
- PRC income tax	27,496	22,924
- Over provision in prior year	(3,699)	—
Deferred taxation (note 26)	235	(3,292)
Taxation charges	<u>24,032</u>	<u>19,632</u>

- (a) No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the year (2002: Nil).
- (b) The Group is subject to an income tax rate of 33% on their taxable profit in accordance with the income tax law in the PRC.
- (c) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Group	
	2003 RMB'000	2002 RMB'000
Profit before taxation	<u>71,253</u>	<u>56,495</u>
Calculated at a taxation rate of 33% (2002: 33%)	23,513	18,643
Income not subject to taxation	(208)	—
Expenses not deductible for taxation purposes	4,191	793
Over provision in prior year	(3,699)	—
Recognition of previously unrecognised temporary differences	235	—
Others	—	196
Taxation charges	<u>24,032</u>	<u>19,632</u>

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB47,009,000 for the year ended 31 December 2003 (2002: RMB36,863,000).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

8 DIVIDENDS

	Group	
	2003 RMB'000	2002 RMB'000
Interim, declared, of approximately RMB0.011 (2002: RMB0.003) per ordinary share	400	114
Final, proposed, of approximately RMB0.012 (2002: Nil) per ordinary share	6,000	—
	<u>6,400</u>	<u>114</u>

At a meeting held on 30 March 2004, the directors proposed a final dividend of RMB0.012 per ordinary share. This proposed dividend is not reflected as dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004 (note 25).

9 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2003 is calculated based on Group's profit attributable to shareholders for the year of approximately RMB47,117,000 (2002: RMB36,863,000) and the weighted average number of 386,739,726 (2002: 273,360,731) ordinary shares in issue during the year.

In determining the weighted average number of shares in issue, the capital injection, the capitalisation of reserve and the sub-division of the Company's shares as described in note 1 to the accounts, were deemed to have occurred at the beginning of the earliest period presented.

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares during the year (2002: Nil).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

10 STAFF COSTS

The staff costs, including directors' emoluments of the Group for the year are as follows:

	Group	
	2003	2002
	RMB'000	RMB'000
Wages and salaries	7,981	4,370
Pension costs - defined contribution retirement scheme (note (a))	564	431
	<u>8,545</u>	<u>4,801</u>

- (a) In accordance with the PRC regulations, the Group is required to make monthly contributions to the defined contribution retirement scheme calculated at 20% of the basic salaries of the employees, and employees are required to contribute 7% of their basic salaries to the retirement scheme. The Group has no obligations for further pension payments or any post-retirement benefits beyond these contributions. The retirement benefits are paid directly from the scheme assets to the retired employees and are calculated by reference to their monthly basic salaries at the date of retirement and length of periods of services rendered.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Fees	—	—
Other emoluments:		
Basic salaries and allowances and other benefits in kind	88	101
Pension costs - defined contribution retirement scheme (note 10(a))	7	7
	<u>95</u>	<u>108</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

The emoluments of the directors fell within the following band:

	Number of directors	
	2003	2002
Nil to RMB1,000,000	<u>8</u>	<u>7</u>

The three executive directors of the Company received individual emoluments for the year of RMB40,200 (2002: RMB47,400), RMB29,400 (2002: RMB30,900) and RMB25,080 (2002: RMB29,300) respectively; whilst the remaining one executive director (2002: one), one non-executive director (2002: one) and three independent non-executive directors (2002: two) did not receive any emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	Number of individuals	
	2003	2002
Directors	—	3
Non-directors	<u>5</u>	<u>2</u>
	<u>5</u>	<u>5</u>

The aggregate amounts emoluments payable to the five (2002: two) non-directors of the Group during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Fees	—	—
Other emoluments:		
Basic salaries and allowances and other benefits in kind	339	49
Pension costs - defined contribution retirement scheme (note10(a))	9	5
	<u>348</u>	<u>54</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments of the above non-directors fell within the following band:

	Number of individuals	
	2003	2002
Nil to RMB1,000,000	5	2

During the year, none of the directors or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to them as an inducement to join the Group or as compensation for loss of office (2002: Nil).

12 GOODWILL

	Group and Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cost		
At 1 January and 31 December	1,177	1,177
Accumulated amortisation		
At 1 January	(569)	(334)
Charge for the year	(235)	(235)
At 31 December	(804)	(569)
Net book value	373	608

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

13 FIXED ASSETS

	Group					Total RMB'000
	Medium-term leasehold land and buildings outside Hong Kong RMB'000	Plant and machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	
Cost						
At 1 January 2003	35,706	49,124	1,285	1,134	8,101	95,350
Additions	317	33,983	1,268	2,063	127	37,758
Transfers	—	8,175	—	—	(8,175)	—
At 31 December 2003	<u>36,023</u>	<u>91,282</u>	<u>2,553</u>	<u>3,197</u>	<u>53</u>	<u>133,108</u>
Accumulated depreciation						
At 1 January 2003	1,049	1,521	297	502	—	3,369
Charge for the year	1,256	6,946	270	419	—	8,891
At 31 December 2003	<u>2,305</u>	<u>8,467</u>	<u>567</u>	<u>921</u>	<u>—</u>	<u>12,260</u>
Net book value						
At 31 December 2003	<u>33,718</u>	<u>82,815</u>	<u>1,986</u>	<u>2,276</u>	<u>53</u>	<u>120,848</u>
At 31 December 2002	<u>34,657</u>	<u>47,603</u>	<u>988</u>	<u>632</u>	<u>8,101</u>	<u>91,981</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

13 FIXED ASSETS (continued)

	Company					Total RMB'000
	Medium-term leasehold land and buildings outside Hong Kong RMB'000	Plant and machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	
Cost						
At 1 January 2003	35,706	49,124	1,285	1,134	8,101	95,350
Additions	317	12,341	1,090	1,370	127	15,245
Transfers	—	8,175	—	—	(8,175)	—
Transfers to a subsidiary	—	(20,207)	—	—	—	(20,207)
At 31 December 2003	<u>36,023</u>	<u>49,433</u>	<u>2,375</u>	<u>2,504</u>	<u>53</u>	<u>90,388</u>
Accumulated depreciation						
At 1 January 2003	1,049	1,521	297	502	—	3,369
Charge for the year	1,256	6,000	257	310	—	7,823
Transfers to a subsidiary	—	(1,795)	—	—	—	(1,795)
At 31 December 2003	<u>2,305</u>	<u>5,726</u>	<u>554</u>	<u>812</u>	<u>—</u>	<u>9,397</u>
Net book value						
At 31 December 2003	<u>33,718</u>	<u>43,707</u>	<u>1,821</u>	<u>1,692</u>	<u>53</u>	<u>80,991</u>
At 31 December 2002	<u>34,657</u>	<u>47,603</u>	<u>988</u>	<u>632</u>	<u>8,101</u>	<u>91,981</u>

All the medium-term leasehold land and buildings outside Hong Kong were held by the Group on leases of between 10 to 50 years.

At 31 December 2003, the net book value of fixed assets pledged as securities for the Group's long-term bank loans amounted to approximately RMB30,949,000 (2002: RMB32,152,000) (note 31).

At 31 December 2003, the net book value of motor vehicles held by the Group under finance leases amounted to approximately RMB584,000 (2002: Nil).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 RMB'000	2002 RMB'000
Investments at cost:		
Unlisted shares	5,865	2,550
Amount due from a subsidiary (note (a))	27,661	7
Amount due to a subsidiary (note (b))	(1,000)	—
	<u>32,526</u>	<u>2,557</u>

The following is a list of the subsidiaries at 31 December 2003:

Name	Place and date of establishment	Registered capital	Issued and fully paid up capital	Attributable equity interest directly held	Principal activities
Ningbo Yitai Electronic Company Limited ("Yitai Electronic") *	The PRC 15 October 2002	RMB15,000,000	RMB10,000,000	51%	Research and development and production of advanced controller systems for display devices
Ningbo Hi-Tech Park Yitian Technology Company Limited ("Yitian Technology") *	The PRC 19 July 2002	RMB10,000,000	RMB1,500,000	51%	Inactive

* The statutory accounts of the above subsidiaries were not audited by PricewaterhouseCoopers, Hong Kong. For the purpose of this report, we have carried out independent audits of the accounts of the subsidiaries and of the Company, for the year ended 31 December 2003 in accordance with Statements of Auditing Standards issued by the HKSA.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

14 INVESTMENTS IN SUBSIDIARIES *(continued)*

- (a) The amount due from a subsidiary, Yitai Electronic, was unsecured, interest-free and had no fixed terms of repayment.

The balance mainly arose from the transfer of certain plant and machinery at a net book value of approximately RMB18,412,000 from the Company to Yitai Electronic and was reduced by the service fees of approximately RMB3,519,000 payable to Yitai Electronic which provided processing and assembly of mobile phones services to the Company. The remaining balance of approximately RMB12,768,000 was mainly resulted from the purchase of fixed assets on behalf of Yitai Electronic.

Regarding the aforesaid transfer of plant and machinery and the payments made on behalf of Yitai Electronic for the purchase of fixed assets, the minority shareholder of Yitai Electronic who is an independent third party has not provided advances in proportion to its equity interests in Yitai Electronic. The directors consider that these transactions were conducted in the ordinary and usual course of business and are in the interest of the Group as a whole.

- (b) The amount due to a subsidiary, Yitian Technology, was unsecured, interest-free and had no fixed terms of repayment.

The balance mainly arose from the Company's receipt in advance from Yitian Technology for the purchase of fixed assets on its behalf.

15 INVENTORIES

	Group	
	2003	2002
	RMB'000	RMB'000
Raw materials	57,475	4,754
Work in progress	446	102
Finished goods	3,823	2,625
	<hr/>	<hr/>
	61,744	7,481
Less: Provision for slow-moving and obsolete inventories	(287)	(236)
	<hr/>	<hr/>
	61,457	7,245
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NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

15 INVENTORIES *(continued)*

	Company	
	2003 RMB'000	2002 RMB'000
Raw materials	57,472	4,754
Work in progress	446	102
Finished goods	3,823	2,625
	<u>61,741</u>	<u>7,481</u>
Less: Provision for slow-moving and obsolete inventories	(287)	(236)
	<u>61,454</u>	<u>7,245</u>

There were no inventories, of the Group and the Company, that were carried at net realisable value as at 31 December 2003 (2002: Nil).

16 BILLS AND TRADE RECEIVABLES

At 31 December 2003, the ageing analysis of the bills and trade receivables is analysed as follows:

	Group and Company			
	Bills receivable		Trade receivables	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Current to 30 days	—	—	48,521	12,693
31 to 90 days	6,531	330	42,603	819
91 to 180 days	—	—	2,092	354
181 to 365 days	—	—	563	1,276
Over 365 days	—	—	354	269
	<u>6,531</u>	<u>330</u>	<u>94,133</u>	<u>15,411</u>
Less: Provision for doubtful debts	—	—	(5,296)	(1,599)
	<u>6,531</u>	<u>330</u>	<u>88,837</u>	<u>13,812</u>

The normal credit terms granted to customers are of 60-90 days.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

17 AMOUNTS DUE FROM A DIRECTOR AND A SHAREHOLDER

The information in relation to the amounts due from a director and a shareholder disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	Group and Company	
	2003 RMB'000	2002 RMB'000
Wang Ya Qun - Director	—	—
China Ruilian Holding Corp. ("China Ruilian") - Shareholder	4,787	—
	<u>4,787</u>	<u>—</u>

No provision was made against the above balance at 31 December 2003 (2002: Nil).

Maximum balances due from a director and a shareholder during the year are as follows:

	Group and Company	
	2003 RMB'000	2002 RMB'000
Wang Ya Qun - Director (note (a))	1,554	90
China Ruilian - Shareholder (note (b))	4,787	2,000
	<u>4,787</u>	<u>2,000</u>

- (a) The amount due from the director was unsecured, interest-free and fully settled as at 31 December 2003.

The balance mainly represented the advance to the director for the expenses incurred for the Group's business purposes.

- (b) The amount due from the shareholder was unsecured, interest-free and had no fixed terms of repayment.

The balance mainly represented the advance to the shareholder for the purchases of raw materials for the production of mobile phones on behalf of the Company. Since the plan of purchase has been cancelled subsequent to the year end, the entire amount was repaid by the shareholder to the Company on 23 February 2004.

18 AMOUNTS DUE FROM RELATED COMPANIES

The information in relation to the amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	Group and Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Shenzhen Ruilian Investment Co., Ltd ("Shenzhen Ruilian")	195	195
Xian Ruilian Modern Electronic Chemicals Co., Ltd ("Xian Ruilian")	<u>2,010</u>	<u>—</u>
	<u><u>2,205</u></u>	<u><u>195</u></u>

No provision was made against the above balances as at 31 December 2003 (2002: Nil).

Maximum balances due from related companies during the year are as follows:

	Group and Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Shenzhen Ruilian (note (a))	195	195
Xian Ruilian (note (b))	<u>12,010</u>	<u>—</u>

(a) Shenzhen Ruilian is a major shareholder of China Ruilian, a shareholder of the Company.

The amount due from Shenzhen Ruilian was unsecured, interest-free and had no fixed terms of repayment. The entire balance as at 31 December 2003 was subsequently settled on 13 February 2004.

(b) Xian Ruilian is an associated company of China Ruilian, a shareholder of the Company.

The amount due from Xian Ruilian was unsecured, interest bearing at 5.4% per annum and had no fixed terms of repayment.

In December 2003, the Company advanced a total sum of RMB12 million to Xian Ruilian. Prior to year end, Xian Ruilian repaid a sum of RMB10 million to the Company. The remaining RMB2 million and the interest payable of approximately RMB10,000 (note 3) as at 31 December 2003 were subsequently settled on 16 February 2004 and 25 March 2004 respectively.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

19 AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY - GROUP AND COMPANY

As at 31 December 2002, the amount was due to Collex Technology Corp., a minority shareholder of a subsidiary, Yitian Technology, and was unsecured, interest-free and repayable under the commercial terms agreed by respective companies. Details of the transaction are set out in note 32(a) to the accounts. The balance, which was originally required to be settled by instalments and would be fully repayable before 2006, was fully repaid in August 2003.

20 PLEDGED BANK DEPOSITS - GROUP AND COMPANY

The balance has been pledged as security for the Group's banking facilities (note 31).

21 BILLS AND TRADE PAYABLES

At 31 December 2003, the ageing analysis of the bills and trade payables is analysed as follows:

	Group and Company			
	Bills payable		Trade payables	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current to 30 days	120	—	137,118	4,875
31 to 90 days	3,610	400	1,445	1,747
91 to 180 days	—	600	916	738
181 to 365 days	—	—	735	342
Over 365 days	—	—	881	777
	<u>3,730</u>	<u>1,000</u>	<u>141,095</u>	<u>8,479</u>

22 SHORT-TERM BANK LOANS

The balance as at 31 December 2003 is unsecured, interest-bearing and repayable within the next twelve months from the balance sheet date. The balance as at 31 December 2002 was secured by a guarantee from a shareholder of the Company which was released upon the full settlement of the outstanding bank loans in May 2003.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

23 LONG-TERM LIABILITIES

As at 31 December 2003, the Group's and the Company's bank loans and finance leases liabilities are repayable as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Bank loans repayable (note (b)):				
Within one year	9,500	—	9,500	—
In the second year	8,000	22,000	8,000	22,000
In the third to fifth year	—	8,000	—	8,000
Total bank loans	<u>17,500</u>	<u>30,000</u>	<u>17,500</u>	<u>30,000</u>
Obligations under finance leases repayable (note (a)):				
Within one year	175	—	—	—
In the second year	117	—	—	—
	<u>292</u>	<u>—</u>	<u>—</u>	<u>—</u>
Less: future finance charges on finance leases	<u>(26)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Present value of obligations under finance leases	<u>266</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total long-term liabilities	<u>17,766</u>	<u>30,000</u>	<u>17,500</u>	<u>30,000</u>
Current portion of long-term liabilities	<u>(9,659)</u>	<u>—</u>	<u>(9,500)</u>	<u>—</u>
	<u>8,107</u>	<u>30,000</u>	<u>8,000</u>	<u>30,000</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

23 LONG-TERM LIABILITIES (continued)

(a) The present value of obligations under finance leases is as follows:

	Group		Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	159	—	—	—
In the second year	107	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	266	—	—	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(b) Included in the above long-term bank loans is a balance of approximately RMB12,000,000 (2002: RMB22,000,000) which is secured by certain fixed assets of the Group (note 13).

The remaining balance of long-term bank loans of RMB5,500,000 as at December 2003 is unsecured. At 31 December 2002, the long-term bank loans of RMB8,000,000 were secured by a guarantee executed by a related company. The guarantee has been released on 20 October 2003.

24 SHARE CAPITAL - GROUP AND COMPANY

	Group and Company	
	Number of shares (in thousand)	Share capital RMB'000
Registered, issued and fully paid:		
At 1 January 2002	5,000	5,000
Capital injection from shareholders	10,000	10,000
Capitalisation of reserves (note 25)	22,000	22,000
	<u>37,000</u>	<u>37,000</u>
At 31 December 2002	<u>37,000</u>	<u>37,000</u>
At 1 January 2003	37,000	37,000
Sub-division (note (a))	333,000	—
	<u>370,000</u>	<u>37,000</u>
Issuance of ordinary shares - H shares (note (b))	130,000	13,000
	<u>500,000</u>	<u>50,000</u>

- (a) Pursuant to an approval dated 4 June 2003 issued by the China Securities Regulatory Commission, all the shares of the Company, which were issued and fully paid, being 37,000,000 ordinary shares with a par value of RMB1.00 each, were sub-divided into 370,000,000 ordinary shares with a par value of RMB0.10 each.
- (b) On 14 November 2003, the Company commenced the trading of the newly issued 130,000,000 H shares of RMB0.10 each on the GEM of the Stock Exchange, including 117,000,000 H shares to institutional investors by way of placement and 13,000,000 H shares for subscription by members of the public in Hong Kong under the Public Offer at the Offer Price of HKD0.50 (equivalent to approximately RMB0.535) per shares, for a total cash consideration of HKD65,000,000 (equivalent to approximately RMB69,550,000). Following the issue, the share capital and capital reserve of the Company have been increased by approximately HKD12,150,000 (equivalent to approximately RMB13,000,000) and HKD52,850,000 (equivalent to approximately RMB56,550,000) respectively.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

25 RESERVES

	Group					Total RMB'000
	Capital reserve RMB'000 (note (a))	Statutory surplus reserve RMB'000 (note (b))	Statutory public welfare reserve RMB'000 (note (c))	Share issuance costs RMB'000 (note (a))	Retained earnings RMB'000 (note (d))	
At 1 January 2002	—	731	329	—	5,539	6,599
Profit attributable to shareholders	—	—	—	—	36,863	36,863
Transfer to reserve funds	—	4,455	2,111	—	(6,566)	—
Transfer to share capital (note 24)	—	(2,106)	(1,054)	—	(18,840)	(22,000)
Share issuance costs	—	—	—	(1,484)	—	(1,484)
Declared dividend	—	—	—	—	(114)	(114)
At 31 December 2002	<u>—</u>	<u>3,080</u>	<u>1,386</u>	<u>(1,484)</u>	<u>16,882</u>	<u>19,864</u>
At 1 January 2003	—	3,080	1,386	(1,484)	16,882	19,864
Profit attributable to shareholders	—	—	—	—	47,117	47,117
Transfer to reserve funds	—	5,617	2,528	—	(8,145)	—
Issue of H shares upon placing and public offer	56,550	—	—	—	—	56,550
Share issuance costs	—	—	—	(14,617)	—	(14,617)
Transfer to capital reserve	(16,101)	—	—	16,101	—	—
Declared dividend	—	—	—	—	(400)	(400)
At 31 December 2003	<u>40,449</u>	<u>8,697</u>	<u>3,914</u>	<u>—</u>	<u>55,454</u>	<u>108,514</u>
Representing:						
2003 final dividend proposed (note 8)					6,000	
Others					49,454	
Retained earnings at 31 December 2003					<u>55,454</u>	

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

25 RESERVES (continued)

	Company					Total RMB'000
	Capital reserve RMB'000 (note (a))	Statutory surplus reserve RMB'000 (note (b))	Statutory public welfare reserve RMB'000 (note (c))	Share issuance costs RMB'000 (note (a))	Retained earnings RMB'000 (note (d))	
At 1 January 2002	—	731	329	—	5,539	6,599
Profit attributable to shareholders	—	—	—	—	36,863	36,863
Transfer to reserve funds	—	4,455	2,111	—	(6,566)	—
Transfer to share capital (note 24)	—	(2,106)	(1,054)	—	(18,840)	(22,000)
Share issuance costs	—	—	—	(1,484)	—	(1,484)
Declared dividend	—	—	—	—	(114)	(114)
At 31 December 2002	<u>—</u>	<u>3,080</u>	<u>1,386</u>	<u>(1,484)</u>	<u>16,882</u>	<u>19,864</u>
At 1 January 2003	—	3,080	1,386	(1,484)	16,882	19,864
Profit attributable to shareholders	—	—	—	—	47,009	47,009
Transfer to reserve funds	—	5,574	2,508	—	(8,082)	—
Issue of H shares upon placing and public offer	56,550	—	—	—	—	56,550
Share issuance costs	—	—	—	(14,617)	—	(14,617)
Transfer to capital reserve	(16,101)	—	—	16,101	—	—
Declared dividend	—	—	—	—	(400)	(400)
At 31 December 2003	<u>40,449</u>	<u>8,654</u>	<u>3,894</u>	<u>—</u>	<u>55,409</u>	<u>108,406</u>
Representing:						
2003 final dividend proposed (note 8)					6,000	
Others					49,409	
Retained earnings at 31 December 2003					<u>55,409</u>	



NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

25 RESERVES *(continued)*

(a) Capital reserve

Capital reserve includes the share premium arising from the issue of H shares and respective share issuance costs of the Company.

(b) Statutory surplus reserve

The Company is required to set aside 10% of their profit after taxation (after making good previous years' losses) prepared in accordance with the PRC accounting regulations to the statutory surplus reserve until the balance reaches 50% of their respective paid up capital or registered capital, where further appropriation will be at the directors' discretion. Such reserve can be used to reduce any losses incurred or to increase share capital.

(c) Statutory public welfare reserve

The Company is required to transfer 5% of their profit after taxation (after making good previous years' losses) and the appropriation to statutory surplus reserve (note 25(b)) prepared in accordance with the PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure for staff collective welfare facilities which are owned by the Company. The statutory public welfare reserve is not available for distribution to the shareholders (except upon the conversion of the Company into joint stock limited company and the liquidation of the Company). The reserve will be reduced in the period in which the capital expenditure on staff welfare facilities is made for the equivalent amount.

(d) Distributable reserves

Saved as disclosed above, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to approximately RMB55,409,000 as at 31 December 2003 (2002: RMB16,882,000).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

26 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2002: 33%).

The movement on the deferred tax assets account is as follows:

	Group and Company	
	2003 RMB'000	2002 RMB'000
At 1 January	3,292	—
Deferred taxation (charged)/credited to profit and loss account (note 6)	(235)	3,292
At 31 December	<u>3,057</u>	<u>3,292</u>

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities	Group and Company			
	Others		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1 January	—	—	—	—
Charged to profit and loss account	1,673	—	1,673	—
At 31 December	<u>1,673</u>	<u>—</u>	<u>1,673</u>	<u>—</u>

Deferred tax assets	Group and Company							
	Deferred revenue		Provisions		Others		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1 January	(3,292)	—	—	—	—	—	(3,292)	—
Charged/(credited) to profit and loss account	2,012	(3,292)	(262)	—	(3,188)	—	(1,438)	(3,292)
At 31 December	<u>(1,280)</u>	<u>(3,292)</u>	<u>(262)</u>	<u>—</u>	<u>(3,188)</u>	<u>—</u>	<u>(4,730)</u>	<u>(3,292)</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

26 DEFERRED TAXATION *(continued)*

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group and Company	
	2003	2002
	RMB'000	RMB'000
Deferred tax assets	(4,730)	(3,292)
Deferred tax liabilities	1,673	—
	<u>(3,057)</u>	<u>(3,292)</u>

The amount shown in the balance sheets include the following:

	2003	2002
	RMB'000	RMB'000
Deferred tax assets to be recovered after more than twelve months	<u>444</u>	<u>1,777</u>

27 DEFERRED REVENUE - GOVERNMENT GRANTS

	Group and Company	
	2003	2002
	RMB'000	RMB'000
At 1 January (notes (a) and (b) below)	9,976	—
Additions (notes (c) and (d) below)	3,880	10,000
Transfer to profit and loss account (note 3)	<u>(4,592)</u>	<u>(24)</u>
At 31 December	9,264	9,976
Current portion of deferred revenue	<u>(2,728)</u>	<u>(4,592)</u>
	<u>6,536</u>	<u>5,384</u>

27 DEFERRED REVENUE - GOVERNMENT GRANTS (continued)

Details of government grants received by the Company are set out as follows:

(a) Subsidy for purchase of the existing plant by the Company of RMB5,600,000

Pursuant to 余姚市財政局文件 (2002) No.51 (Yuyao City Financial Bureau Document (2002) No.51) issued on 15 November 2002, the Company is entitled to a subsidy for supporting the purchase of the existing premises. The total amount of the subsidy is RMB5,600,000. The Company received RMB5,600,000 in 2002 and there is no assurance that the Company can enjoy such subsidy in the future. It was deferred and will be recognised as income on a straight-line basis over the expected lives of the related assets.

(b) Subsidy for the research project on LCD televisions and monitors of RMB4,400,000

Pursuant to 余姚市科學技術局及余姚市財政局文件 (2002) No.38 (Yuyao City Finance Bureau and Yuyao City Science and Technology Bureau Document (2002) No.38) issued on 24 December 2002, the Company is entitled to a subsidy based on the prescribed conditions as stated in the document for supporting the development of LCD televisions and monitors. The total amount of the subsidy is RMB4,400,000. The Company received RMB4,400,000 in 2002. The research project on LCD televisions and monitors was completed by the end of 2003 and it was recognised as income for the year ended 31 December 2003.

(c) Subsidy for the research project on portable scanners of RMB2,200,000

Pursuant to 余姚市科學技術局及余姚市財政局文件 (2003) No.36 (Yuyao City Finance Bureau and Yuyao City Science and Technology Bureau Document (2003) No.36) issued on 8 December 2003, the Company is entitled to a subsidy based on the prescribed conditions as stated in the document for supporting the development of portable scanners. The total amount of the subsidy is RMB2,200,000. The Company received RMB2,200,000 in 2003 and there is no assurance that the Company can enjoy such subsidy in the future. The research project on portable scanners was expected to be completed by the end of 2004 and it was treated as short-term deferred revenue in the accounts.

(d) Subsidy for the purchase of fixed assets for the production project of cellular phones of RMB1,680,000

Pursuant to 寧波市經濟委員會及寧波市財政局文件 (2003) No.534 and No.752 (Ningbo City Finance Bureau and Ningbo City Economic Bureau Document (2003) No.534 and No.752) issued on 18 December 2003, the Company is entitled to a subsidy based on the prescribed conditions as stated in the document as an encouragement to invest in fixed assets for production of cellular phones. The total amount of the subsidy is RMB1,680,000. The Company received RMB1,008,000 in 2003 and there is no assurance that the Company can enjoy such subsidy in the future. It was deferred and will be recognised as income on a straight-line basis over the expected lives of the related assets.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	Group	
	2003	2002
	RMB'000	RMB'000
Profit before taxation	71,253	56,495
Interest expenses	3,585	2,845
Bank interest income	(310)	(124)
Amortisation of goodwill	235	235
Depreciation of fixed assets	8,891	2,496
Income on government grants	(4,592)	(24)
Provision for doubtful debts and prepayments	4,211	1,332
Provision for slow-moving and obsolete inventories	51	236
Write-off of fixed assets	—	118
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Operating profit before working capital changes	83,324	63,609
Increase in inventories	(54,263)	(1,167)
Increase in bills receivable, trade receivables, other receivables, deposits and prepayments	(105,739)	(20,772)
Increase in amounts due from a director and a shareholder	(4,787)	—
Increase in amounts due from related companies	(2,010)	(195)
Increase in bills payable, trade payables, other payables, accrued charges and receipts in advance	151,390	13,882
Receipts of government grants	3,208	10,000
	<hr/>	<hr/>
Net cash inflow generated from operations	<u>71,123</u>	<u>65,357</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year:

	Share capital and				Obligations under					
	capital reserve		Minority interests		Bank loans		finance leases		Dividend payable	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	35,516	5,000	2,450	—	55,000	32,000	—	—	114	—
Capitalisation of reserves	—	22,000	—	—	—	—	—	—	—	—
Minority interests' share										
of profits	—	—	104	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	—	400	114
Inception of finance leases	—	—	—	—	—	—	417	—	—	—
Cash inflow/(outflow) from										
financing, net	54,933	8,516	3,185	2,450	(12,500)	23,000	(151)	—	(494)	—
At 31 December	90,449	35,516	5,739	2,450	42,500	55,000	266	—	20	114

(c) Major non-cash transactions

During the year, the Group has purchased fixed assets of approximately RMB37,758,000 (note 13), out of which RMB37,341,000 were settled in cash. The remaining amount represented finance lease arrangements entered by the Group in respect of motor vehicles with a total capital value at the inception of the leases of approximately RMB417,000.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

29 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for	<u>227</u>	<u>9,575</u>

(b) Capital commitments for investments in subsidiaries:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised and contracted for	<u>6,885</u>	<u>5,100</u>

(c) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than one year	260	33
Later than one year and not later than five years	<u>260</u>	<u>—</u>
	<u>520</u>	<u>33</u>

30 CONTINGENT LIABILITIES

As at 31 December 2003, the Group had up no material contingent liabilities (2002: Nil).

31 BANKING FACILITIES

At 31 December 2003, banking facilities of approximately RMB65,670,000 (2002: RMB58,000,000) were granted by banks to the Group, of which approximately RMB46,170,000 (2002: RMB56,000,000) have been utilised by the Group and were secured by the following:

- (a) fixed charges on certain medium-term leasehold land and buildings of the Group with a net book value amounting to RMB30,949,000 as at 31 December 2003 (2002: RMB32,152,000) (note 13); and
- (b) pledged bank deposits of RMB3,670,000 as at 31 December 2003 (2002: RMB1,000,000) (note 20);

32 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes to the accounts, the Group has entered into the following significant related party transactions in its ordinary course of business and on terms mutually agreed between the relevant parties:

	Note	Group	
		2003 RMB'000	2002 RMB'000
Purchase of fixed assets from a minority shareholder of a subsidiary	(a)	—	10,900

- (a) In last year, the Group purchased fixed assets of RMB10,900,000 from Collex Technology Corp., a minority shareholder of a subsidiary, Yitian Technology. The Group has settled RMB5,885,000 as at 31 December 2002. The remaining balance of RMB5,015,000 which was originally required to be settled by instalments and would be fully repayable before 2006, was fully repaid in August 2003.

33 SUBSEQUENT EVENTS

On 5 January 2004, the Group set up a wholly owned subsidiary, Fine Best Technology Limited, in Hong Kong. On 13 February 2004, the Group set up an associated company, Ningbo Bolang Electrical Appliance Co., Ltd, in which the Group holds an equity interest of 45%. The Group injected RMB1,350,000 into the associated company on 11 February 2004.

The above companies are newly established and they have not been involved in any significant business transactions up to the date of this report.

Save as disclosed above and in other notes to the accounts, no other significant events took place subsequent to 31 December 2003 and up to the date of this report.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 30 March 2004.

SUMMARY OF FINANCIAL INFORMATION

For the year ended 31 December 2003

The following is a summary of the results and of the assets and liabilities of the Group for the last four years ended 31 December 2003 since its incorporation.

	Unaudited	Audited		
	Period from 3 August 2000 (date of incorporation) to 31 December 2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	145	49,882	176,721	315,954
Profit/(loss) before taxation	(578)	13,595	56,495	71,253
Taxation	—	(4,474)	(19,632)	(24,032)
Profit after taxation	(578)	9,121	36,863	47,221
Minority interests	—	—	—	(104)
Profit attributable to shareholders	(578)	9,121	36,863	47,117

	Unaudited	Audited		
	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>
Non-current assets	4,662	40,861	95,881	124,278
Current assets	10,787	18,204	67,995	280,228
Total assets	15,449	59,065	163,876	404,506
Non-current liabilities	—	(25,000)	(40,324)	(14,643)
Current liabilities	(11,027)	(22,466)	(64,238)	(225,610)
Total liabilities	(11,027)	(47,466)	(104,562)	(240,253)
Minority interests	—	—	(2,450)	(5,739)
Net assets	4,422	11,599	56,864	158,514

Notes:

The results for the two years ended 31 December 2001 and 2002, and the assets and liabilities as at 30 December 2001 and 2002 have been extracted from the Company's prospectus dated 30 October 2003.

The assets and liabilities as at 31 December 2001, 2002 and 2003, and the results for the years ended 31 December 2001, 2002 and 2003 have been prepared on a consolidated basis.

No audited HK GAAP accounts was prepared for the period from 3 August 2000 to 31 December 2000 and the summary of the results and of the assets and liabilities of the Company for the period ended 31 December 2000.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Ningbo Yidong Electronic Company Limited (the "Company") will be held at 39/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on 17 May 2004 at 3:00 p.m. for the following purposes:

1. To consider and approve the report of the board of directors of the Company (the "Board") for the year 2003;
2. To consider and approve the audited financial statements for the year ended 31 December 2003;
3. To consider and approve the dividend distribution proposal for the year 2003;
4. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.
5. As special business for considering and, if thought fit, passing the following special resolution of the Company:

SPECIAL RESOLUTION

"THAT the Articles of Association of the Company be amended in the following manner:

1. Add a new paragraph which states "Where any shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted." immediately after the existing Article 66.
2. Second paragraph of Article 89 be amended in the following manner:

"The minimum length of the period, during which notice to the Company of the intention to propose a person for election as a director and during which notice to the Company by such person of his willingness to be elected may be given, will be at least 7 days and such period for lodgment of the notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting."
3. Fourth paragraph of Article 89 be amended in the following manner:

"Where not otherwise provided by law, the Company in general meeting shall have power by special resolution to remove any director (including a managing or other executive director, but without prejudice to any claim for damages under any contract) before the expiration of his term of office."
4. A new paragraph, to be added immediately after the existing Article 97, stating:

"A director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting."



NOTICE OF ANNUAL GENERAL MEETING

Such prohibition shall not apply to any of the following matters, namely:

- (1) the giving of any security or indemnity either:
 - (a) to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or
 - (b) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (2) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (3) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;
- (4) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:
 - (a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his associate(s) may benefit; or
 - (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (5) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company."

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5. Replace existing Article 191 with the following wording (the original Article 191 shall be re-numbered as Article 192 accordingly):

"Associate" in this Articles of Association means:

- (a) in relation to an individual:
- (i) his spouse;
 - (ii) any child or step-child, natural or adopted, under the age of 18 years of such individual or of his spouse (together with (a)(i) above, the "family interests");
 - (iii) the trustees, acting in their capacity as such trustees, of any trust of which he or any of his family interests is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object and any company ("trustee-controlled company") in the equity capital of which the trustees, acting in their capacity as such trustees, are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in applicable PRC law as being the level for triggering a mandatory general offer or for otherwise establishing legal or management control over a business enterprise) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary (together, the "trustee interests");
 - (iv) a holding company of a trustee-controlled company or a subsidiary of any such holding company; and
 - (v) any company (including an equity joint venture established under PRC law) in the equity capital of which he, his family interests, any of the trustees referred to in (a)(iii) above, acting in their capacity as such trustees, and/or any trustee interests taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in applicable PRC law as being the level for triggering a mandatory general offer or for otherwise establishing legal or management control over a business enterprise) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary or holding company or a fellow subsidiary of any such holding company; and



NOTICE OF ANNUAL GENERAL MEETING

(vi) any company with which or individual with whom he, his family interests, any of the trustees referred to in (a)(iii) above, acting in their capacity as such trustees, and/or any trustee interests taken together are directly or indirectly interested in a cooperative or contractual joint venture (whether or not constituting a separate legal person) under PRC law where he, his family interests, any of the trustees referred to in (a)(iii) above, acting in their capacity as such trustees, and/or any trustee interests taken together directly or indirectly have 30% (or such other amount as may from time to time be specified in applicable PRC law as being the level for triggering a mandatory general offer or for otherwise establishing legal or management control over a business enterprise) or more interest either in the capital and/or assets contributions to such joint venture or in the contractual share of profits or other income from such joint venture; and

(b) in relation to a company:

(i) any other company which is its subsidiary or holding company or is a fellow subsidiary of any such holding company or one in the equity capital of which it and/or such other company or companies taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in applicable PRC law as being the level for triggering a mandatory general offer or for otherwise establishing legal or management control over a business enterprise) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors;

(ii) the trustees, acting in their capacity as such trustees, of any trust of which the company is a beneficiary or, in the case of a discretionary trust, is (to the company's knowledge) a discretionary object and any company ("trustee-controlled company") in the equity capital of which the trustees, acting in their capacity as such trustees, are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in applicable PRC law as being the level for triggering a mandatory general offer or for otherwise establishing legal or management control over a business enterprise) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary (together, the "trustee interests");

(iii) a holding company of a trustee-controlled company or a subsidiary of any such holding company; and

NOTICE OF ANNUAL GENERAL MEETING

- (iv) any other company (including an equity joint venture established under PRC law) in the equity capital of which the company, such other companies referred to in (b)(i) above, any of the trustees referred to in (b)(ii) above, acting in their capacity as such trustees, and/or any trustee interests taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in applicable PRC law as being the level for triggering a mandatory general offer or for otherwise establishing legal or management control over a business enterprise) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary or holding company or a fellow subsidiary of any such holding company; and
- (v) any other company with which or any individual with whom the company, such other companies referred to in (b)(i) above, any of the trustees referred to in (b)(ii) above, acting in their capacity as such trustees, and/or any trustee interests taken together are directly or indirectly interested in a cooperative or contractual joint venture (whether or not constituting a separate legal person) under PRC law where it, such other companies referred to in (b)(i) above, any of the trustees referred to in (b)(ii) above, acting in their capacity as such trustees, and/or any trustee interests taken together directly or indirectly have 30% (or such other amount as may from time to time be specified in applicable PRC law as being the level for triggering a mandatory general offer or for otherwise establishing legal or management control over a business enterprise) or more interest either in the capital and/or assets contributions to such joint venture or in the contractual share of profits or other income from such joint venture.”

The proposed amendments to the Articles of Association are subject to the approval from the shareholders of the Company by way of special resolutions at the AGM.

By order of the Board of
Ningbo Yidong Electronic Company Limited
Wang Ya Qun
Chairman

The People's Republic of China, 30 March, 2004

Principal place of business in Hong Kong:
Rooms 1001-02, 10/F.
Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai
Hong Kong



NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The register of members of the Company will be closed from 16 April 2004 to 17 May 2004 (both days inclusive), during which no transfer of shares can be registered.
2. Holders of domestic shares and H shares whose names appear on the register of members of the Company before 4:00 p.m. 15 April 2004 are entitled to attend and vote at the meeting convened by the above notice and may appoint one or more proxies to attend and, in the event of a poll, vote on their behalves. A proxy need not be a member of the Company.
3. A proxy form for the meeting is hereinwith enclosed. In order to be valid, the proxy form must be deposited by hand or post, for holders of H Shares of the Company, to the H shares registrar of the Company at Abacus Share Registrars Limited at 28/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and, for holders of domestic shares of the Company, to the registered address of the Company not less than 24 hours before the time for holding the meeting or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
4. Shareholders or their proxies shall produce their identity documents when attending the meeting.
5. Shareholders who intend to attend the meeting should complete and return the enclosed reply slip and return it by hand, post or by fax to the Company's liaison office in Hong Kong, Rooms 1001-02, 10/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong (fax no.: (852) 2529 2048) on or before Monday, 26 April 2004.
6. The meeting is expected to take half a day. Shareholders attending the meeting shall be responsible for their own travel and accommodation expenses.
7. The registered office address of the Company and the details of the secretarial office of the Board are as follows:

No. 65 Siming East Road
Yuyao City
Zhejiang Province
China