



**VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED**

**華索國際控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**ANNUAL REPORT 2003-2004**

*\* For identification purposes only*

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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## CORPORATE INFORMATION

**BOARD OF DIRECTORS****Executive Directors**

Yasukawa Yoshihiro  
Lee Chun Piu  
Zhong Ming Ying  
Wang Li Hua

**Independent Non-executive Directors**

Christopher Leu  
Guo Qing

**COMPANY SECRETARY**

Wong Chi Ling, *ACCA, AHKSA*

**QUALIFIED ACCOUNTANT**

Wong Chi Ling, *ACCA, AHKSA*

**COMPLIANCE OFFICER**

Yasukawa Yoshihiro

**AUTHORISED REPRESENTATIVES**

Yasukawa Yoshihiro  
Lee Chun Piu

**AUDIT COMMITTEE**

Christopher Leu  
Guo Qing

**AUDITORS**

HLB Hodgson Impey Cheng  
*Chartered Accountants*  
*Certified Public Accountants*

**PRINCIPAL BANKERS**

DBS Kwong On Bank  
Standard Chartered Bank

**REGISTERED OFFICE**

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Room 4301, 43rd Floor  
Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

**SHARE REGISTRARS AND TRANSFER OFFICES****Principal registrar**

Bank of Bermuda (Cayman) Limited  
P.O. Box 513 G.T.  
36C Bermuda House  
3rd Floor  
Dr. Roy's Drive  
Grand Cayman  
Cayman Islands  
British West Indies

**Branch registrar**

Tengis Limited  
Ground Floor  
BEA Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

**Legal adviser to the Company**

*As to Hong Kong Law:*  
Vincent T.K. Cheung, Yap & Co.

*As to Cayman Islands Law:*  
*Conyers Dill & Pearman, Cayman*

**SPONSOR**

Kingston Corporate Finance Limited

**STOCK CODE**

8220

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I hereby present the annual report of Vaso Digital International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31st March 2004 to our shareholders.

### BUSINESS REVIEW AND OUTLOOK

The turnover of the Group for the year ended 31st March 2004 increased from approximately HK\$42,039,000 in the previous year to approximately HK\$78,470,000 in the current year, representing an increase of approximately 87%. The increase has come principally from the increase in sales of DVD players to existing and new customers.

Gross profit margins decreased from approximately 16% in the previous year to approximately 9% in the current year as a result of increased proportion of sales from DVD players, which commended lower gross profit margin. Despite the increased in turnover, profit attributable to shareholders decreased to approximately HK\$1,987,000, a decrease of approximately 31% compared to the previous year. The decrease was mainly attributable to the general decrease in the gross profit margins of the products sold due to competitive market conditions and increase in the provision for deferred taxation owing to the adoption of a new accounting standard.

The year ended 31st March 2004 has been a difficult year due to the gloomy business environment. During the first half of the Group's financial year, the Hong Kong and Asia markets were very difficult and challenging due to outbreak of the Severe Acute Respiratory Syndrome ("SARS"). Fortunately, the situation improved during the second half of the Group's financial year as SARS was under control and the global economy recovered.

Looking forward to the coming year, the Board is positive with the level of orders placed with the Group. Our Group will continue to maintain a tight control on costs to bring about more efficiency to the business.

Finally I would like to take this opportunity to thank our staff for their dedication and loyalty, and our shareholders for their continuous support.

**Yasukawa Yoshihiro**  
*Chairman*

Hong Kong, 23rd June 2004

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATIONAL REVIEW

#### General

The Group is principally engaged in the development, design and sale of digital AV products which include integrated circuit recorders ("IC recorders"), mpeg-1 audio layer-3 players ("MP3 players") and digital versatile disc players ("DVD players") for the mid-price segment of the market. It is the objective of the Group to be a leading provider and developer of digital audio and visual ("AV") products in the Asia market.

Ms. Zhong Ming Ying and Ms. Wang Li Hua joined as directors of the Group in the current year. They both have good knowledge of the market of the People's Republic of China ("PRC") and have succeeded in assisting to lead the Group and sales of the Group increased by approximately 87% compared to the previous year. However, gross profit margin decreased owing to the competitive market conditions and provision for deferred taxation increased owing to the adoption of a new accounting standard, resulting in a decrease in the profit attributable to shareholders of approximately 31% compared to previous year.

As part of the Group's plan, the Group acquired further plant and machinery during the year to strengthen and increase the Group's production capacity.

### FINANCIAL REVIEW

#### Results

During the year ended 31st March 2004, the Group recorded a turnover of approximately HK\$78,470,000, representing an increase of approximately 87% from the previous year. The increase was due to the increase in the sales of DVD players to existing and new customers.

Gross profit margin decreased from approximately 16% in the previous year to approximately 9% in the current year as a result of the increased proportion of sales of DVD players, which commanded lower gross profit margin.

Despite the increase in turnover, profit attributable to shareholders decreased to approximately HK\$1,987,000, a decrease of approximately 31% compared to the previous year. The decrease was mainly attributable to the general decrease in gross profit margins of the products sold due to competitive market conditions and an increase in the provision for deferred taxation owing to the adoption of a new accounting standard. The Group has managed to decrease administrative expenses by approximately 5% compared to the previous year due to the costs control measure of the Group. Other operating expenses increased by approximately 37% due to the increase in research and development expenses.

#### Liquidity, financial resources and capital structure

As at 31st March 2004, the Group had total assets of approximately HK\$30,203,000 (31st March 2003: approximately HK\$40,325,000) of which approximately HK\$3,854,000 was cash and bank balances (31st March 2003: approximately HK\$8,540,000). There was no pledged bank deposits as at 31st March 2004 (31st March 2003: approximately HK\$1,722,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

#### Liquidity, financial resources and capital structure (continued)

As at 31st March 2004, the Group did not have any banking facilities (31st March 2003: HK\$10 million), had no outstanding bank overdrafts (31st March 2003: approximately HK\$1,722,000) and had no borrowings stated at fixed interest rates (31st March 2003: Nil). As at 31st March 2004, none of the Group's assets were pledged (31st March 2003: approximately HK\$1,722,000).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31st March 2004 was approximately 0.12 (31st March 2003: approximately 0.42).

The Group's transactions during the year were denominated in Hong Kong ("HK") Dollars and United States ("US") Dollars. As the exchange rate of US Dollars to HK Dollars is fairly stable, the Board is of the view that the Group's exposure to foreign currency exchange risk is limited and hence, no hedging or other arrangements to reduce the currency risk have been implemented.

The shares of the Company were listed on GEM on 12th November 2002. There has been no change in the capital structure of the Company since that date.

#### Segment information

Sales of the Group comprise sales of the three major product lines of the Group, which are IC recorders, MP3 players and DVD players. During the year under review, the sales of IC recorders, MP3 players and DVD players accounted for approximately 11%, 7% and 65% of the Group's turnover respectively compared to approximately 27%, 28% and 45% respectively of the Group's turnover in the previous year. During the year under review, the Group recorded sales of IC components of approximately HK\$13,849,000, which represents approximately 17% of the Group's turnover.

The principal market of the Group's products is the PRC (including Hong Kong). Sales to PRC represent approximately 86% of the Group's turnover in the year under review as compared to approximately 91% in the previous year. The Group recorded sales to Singapore of approximately 13% of the Group's turnover in the year under review.

Details of the business and geographical segments are disclosed in note 5 to the financial statements.

#### New products/Group's order book

The Group introduced 6 new models of digital AV products during the year.

The Group will continue to step up its efforts in developing new products and new models of existing products and to improve the quality, performance and functionality of the Group's products in order to achieve its objective of becoming a leading provider and developer of digital AV products in the Asian market.

As at 31st March 2004, the Group's orders on hand were approximately HK\$4 million on the three major product lines of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

#### Significant investments

As at 31st March 2004, there was no significant investment held by the Group (2003: Nil).

#### Material acquisitions or disposals of subsidiaries and affiliated companies

There were no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the year.

#### Employee and remuneration policies

As at 31st March 2004, the Group employed a total of 17 (31st March 2003: 18) employees, including directors. Total staff costs including directors' emoluments were approximately HK\$724,000 in the year under review (2003: approximately HK\$1,223,000).

Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance may be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees. To date, no share options have been granted to employees.

#### Future plans for material investments or capital assets and expected sources of funding

Details of the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the paragraphs headed "Statement of Business Objectives" and "Reasons for the Placing and the Use of Proceeds" respectively under the section headed "Future Plans and Prospects" in the Company's prospectus dated 30th October 2002 (the "Prospectus"). Other than those disclosed therein and under sections headed "Comparison of Business Objectives with Actual Business Progress" and "Use of Proceeds" in this annual report, the Group did not have any other plans for material investments or capital assets.

#### Contingent liabilities

As at 31st March 2004, the Group had no contingent liabilities. As at 31st March 2003, the Company executed a corporate guarantee as part of the security for general banking facilities granted to a subsidiary to the extent of HK\$10,000,000.

#### Operating lease commitments

As at 31st March 2004, the commitments under non-cancellable operating lease in respect of premises were HK\$132,000 (31st March 2003: HK\$30,000).



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 1st October 2003 to 31st March 2004 (the "Review Period").

### According to the business objectives as stated in the Prospectus

### Actual business progress in the Review Period

#### Marketing and promotion

Build and promote the "V<sup>vaso</sup>" and "C" trademarks via advertisements and by participating in trade exhibitions and seminars.

The Group has successfully obtained the certificates of registration of the 2 trademarks of the Group from the Trade Marks Registry of Hong Kong in November and December 2003. The Group has commenced to promote the trademarks to customers through direct contacts instead of participating in trade exhibitions and seminars as the Group believes that it will be more cost effective.

Launch and promote the Group's digital AV products

- IC recorders with MP3 players and FM features
- IC recorders/MP3 players with extended compression memory features
- IC recorders/MP3 players with built in slots for memory sticks/cards
- IC recorders/MP3 players with built in digital camera features

The Group continued to promote these products through joint marketing efforts with existing customers.

The Group continued to promote these products through joint marketing efforts with existing customers.

The Group has commenced to promote these products through joint marketing efforts with existing customers.

The Group delayed in launching and promotion of these products owing to some difficulties in the development process. No material impact on the Group's operation is expected.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

<b>According to the business objectives as stated in the Prospectus</b>	<b>Actual business progress in the Review Period</b>
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### **Research and product development**

Upgrade features of existing digital AV products:

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>- IC recorders with MP3 players and FM features</li> </ul>                        | <p>The Group has completed the development of IC recorders with MP3 players and FM features.</p>  |
| <ul style="list-style-type: none"> <li>- IC recorders/MP3 players with extended compression memory features</li> </ul>   | <p>The Group has completed the development of IC recorders and MP3 players with extended compression memory features.</p>                     |
| <ul style="list-style-type: none"> <li>- IC recorders/MP3 players with built in slots for memory sticks/cards</li> </ul> | <p>The Group is still in the process of developing IC recorders/MP3 players with built in slots for memory sticks/cards.</p>                  |
| <ul style="list-style-type: none"> <li>- IC recorders/MP3 players with built in digital camera features</li> </ul>       | <p>The Group has suspended plans to develop IC recorders/MP3 players with built in digital camera features due to technical difficulties.</p> |

### **Geographical expansion**

Form joint marketing distribution arrangements with distributors to promote the Group's products in the PRC.

The Group has formed alliances with a distributor in the PRC to promote the Group's products in the PRC.

Expansion into overseas markets such as the US and Europe by entering into joint marketing/distribution arrangements with distributors to promote the Group's products.

The Group has delayed expansion into new overseas markets and concentrated its resources on the PRC and the Asian markets instead.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

### According to the business objectives as stated in the Prospectus

### Actual business progress in the Review Period

#### Setting up production facilities

Set up production facilities in the PRC.

The Group has set up production facilities in Shenzhen, Guangdong Province, PRC. The Group continued to acquire machinery and production facilities during the Review Period.

#### Human resources development

Expand the research team by recruiting additional engineers.

As at 31st March 2004, there were 4 staff at the design and development department (30th September 2003: 5).

Expand the sales team in Hong Kong and PRC by recruiting additional staff members.

As at 31st March 2004, there were 4 staff at the sales and marketing department (30th September 2003: 4).

Recruit sales team for major overseas markets such as the US and Europe.

The Group has delayed expansion into new overseas markets and concentrated its resources on the PRC and the Asian markets instead.

## USE OF PROCEEDS

The shares of the Company were listed on GEM by way of placing of 105,300,000 shares (comprising 80,000,000 new shares (the "New Shares") and 25,300,000 sale shares) on 12th November 2002. The net proceeds (after deducting listing expenses) from the issue of New Shares were approximately HK\$13,000,000.

During the period from 24th October 2002 (Latest Practicable Date as defined in the Prospectus) to 31st March 2004, the Group has applied the net proceeds as follows:

	<b>Amount extracted from the Prospectus</b> <i>HK\$'000</i>	<b>Actual usage</b> <i>HK\$'000</i>
Expenditure in relation to setting up production facilities	7,000	7,000
Expenditure in relation to geographical expansion	1,500	1,500
Expenditure in relation to research and product development	1,500	1,500
Expenditure in relation to marketing and promotion	1,500	1,500
<b>Total</b>	<b>11,500</b>	<b>11,500</b>

The remaining net proceeds as at 31st March 2004 of HK\$1.5 million was placed on short term deposits with a licenced bank in Hong Kong.

## DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

Yasukawa Yoshihiro (安川義宏), aged 52, is the chairman, chief executive officer and co-founder of the Group. Mr. Yasukawa is responsible for the overall strategic planning and management of the Group and overseeing the sales and marketing functions of the Group. Mr. Yasukawa has over thirty years experience in sales and marketing in the electronics industry. Mr. Yasukawa graduated from Kashri Technical High School in Japan, majoring in electronics. He was appointed as an executive director in June 2002.

Lee Chun Piu (李俊彪), aged 46, is the chief operation officer and co-founder of the Group. Mr. Lee is responsible for the marketing, production and management functions of the Group. Mr. Lee has over twenty years experience in sales and marketing in the electronics industry. Mr. Lee graduated from St. Louis School in Hong Kong. Before the Group was founded in May 1999, Mr. Lee was a manager of Alabross Electronics (China) Company Limited, which was then a subsidiary of Albatronics (Far East) Company Limited. He was appointed as an executive director in June 2002.

Zhong Ming Ying (鍾明英), aged 56, was appointed as an executive director in September 2003. Ms. Zhong was awarded 會計師資格(Accountant qualification) by 深圳市職稱管理辦公室(Shenzhen Occupational Regulatory Office) in December 1989. Ms. Zhong has extensive knowledge in accounting and finance. Prior to joining the Group, she worked in the accounts and finance department of a manufacturing and trading of electronic products company in Shenzhen, the PRC as a manager.

Wang Li Hua (王麗華), aged 42, was appointed as an executive director in September 2003. Prior to joining the Group, Ms. Wang worked as the operation manager for a manufacturing and trading of luggage company in Shenzhen, the PRC.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Christopher Leu (呂頌樂), aged 44, is an independent non-executive director of FX Creations International Holdings Limited, which is listed on the GEM. He holds a bachelor of science degree in business administration and a master of science degree in systems management from the University of Southern California. He is also a Ph.D. candidate in International Political Economy at the University of Southern California. He has over twenty years of finance and banking experience. He was appointed as an independent non-executive director in June 2002.

Guo Qing (郭慶), aged 39, was appointed as an independent non-executive director of the Company in December 2003. Mr. Guo has been working as a manager of the accounts and finance department for a private luggage manufacturing company in Shenzhen, the PRC since May 2000. Mr. Guo was awarded the graduation certificate in economic management (經濟管理專業) from The Party School of the Communist Party of China Central Committee (中共中央黨校函授學院) in December 2001. He was certified as an accountant in accounts (corporate) (會計(企業)) by the Ministry of Finance of the People's Republic of China in May 1997 and is a member of The Chinese Institute of Certified Public Accountants.

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

Wong Chi Ling, aged 32, is the accounting manager and company secretary of the Group. Ms. Wong is responsible for the accounting and finance functions of the Group. She holds a bachelor of arts in accountancy (honours) from the Hong Kong Polytechnics. She is also an associate member of the Association of Chartered Certified Accountants, United Kingdom and associate member of the Hong Kong Society of Accountants. Ms. Wong has over six years experience working in commercial and public accountant's firm. Prior to joining the Group in May 2002, Ms. Wong worked as a manager in Rich Path Enterprises Limited, an accounting company.

Yanashima Shinichi (筵島慎一), aged 45, is the vice president for marketing of the Group. Mr. Yanashima is responsible for the sales and marketing of the Group in Hong Kong. He holds a bachelor of arts in law from the Kanagawa University in Japan. Mr. Yanashima has over ten years of experience in sales and marketing in the electronics industry. Before joining the Group in April 2002, he was the business manager of Huabao Electronics and Appliance Limited.

Fong Siang (馮湘), aged 45, is the chief technology officer of the Group. Mr. Fong is responsible for the design, research and development functions of the Group. He holds a 工學學士學位 in 計算機控制 from 北京理工大學 in the PRC and has over fifteen years experience in research and development in the electronics industry. Before joining the Group in January 2003, he was the manager of a research and development department of a private company in Shenzhen, PRC.

## DIRECTORS' REPORT

The board of directors (the "Board") of Vaso Digital International Holdings Limited (the "Company") presents the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March 2004.

### GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 27th June 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation scheme ("Group Reorganisation") of the Group in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the Group on 19th October 2002. Further details of the Group Reorganisation are set out in the prospectus issued by the Company dated 30th October 2002 ("Prospectus"). The Company's shares were listed on GEM on 12th November 2002.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2004 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 21 to 23.

The directors of the Company do not recommend the payment of dividend for the year ended 31st March 2004.

### RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

### FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 16 to the financial statements.

### SHARE CAPITAL

Details of the movement of the share capital of the Company are set out in note 22 to the financial statements.

## DIRECTORS' REPORT

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March 2004 amounted to HK\$15,953,000 (31st March 2003: HK\$15,894,000). Under Section 34 of the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to shareholders of the Company subject to the provisions of the articles of association of the Company and no distribution shall be paid to shareholders out of the share premium unless the Company shall be able to pay its debts as they fall due in the ordinary course of business.

### FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 52.

### PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year under review.

### SHARE OPTIONS SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19th October 2002, the Company adopted a share option scheme (the "Scheme"). Further details of the Scheme are set out in note 23 to the financial statements. Up to the date of approval of these financial statements, no option had been granted or agreed to be granted by the Company under the Scheme.

### DIRECTORS

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

#### Executive directors

Mr. Yasukawa Yoshihiro  
Mr. Lee Chun Piu  
Madam Wang Li Hua – appointed on 17th September 2003  
Madam Zhong Ming Ying – appointed on 17th September 2003

#### Independent non-executive directors

Mr. Christopher Leu  
Mr. Goh Gen Cheung – resigned on 15th January 2004  
Mr. Guo Qing – appointed on 1st December 2003

In accordance with Article 87 of the Company's Articles of Association, Mr. Christopher Leu will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 86(3) of the Company's Articles of Association, Madam Wang Li Hua, Madam Zhong Ming Ying and Mr. Guo Qing will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.



## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

Two executive directors of the Company, Mr. Yasukawa Yoshihiro and Mr. Lee Chun Piu, have entered into service agreements with Cyclone Technology Limited, a subsidiary of the Company, for an initial fixed period of two years commencing from 1st November 2002 and expiring on 31st October 2004 which shall thereafter automatically continue until terminated by either party giving not less than three months' prior notice in writing, as executive director of the Company's subsidiary and the Company.

Mr. Yasukawa Yoshihiro and Mr. Lee Chun Piu together are entitled to a basic salary of HK\$360,000 per annum in aggregate which is subject to an annual review and in case of an increment then at a rate determined by the Company, provided that it shall not exceed 10% of the amount of such salary paid during the previous twelve-month period. In addition, each of them is also entitled to a discretionary bonus which shall be determined by the Company having regard to the operating results of the Group provided that the total sum of any discretionary bonus payable to all the executive directors of the Company in respect of any financial year shall not exceed 10% of the audited consolidated net profit after taxation of the Group in respect of the same financial year. Mr. Yasukawa Yoshihiro and Mr. Lee Chun Piu shall not vote and shall not be counted in the quorum in respect of any resolution of the directors regarding the amount of the increment or discretionary bonus payable to them. Mr. Yasukawa Yoshihiro is also entitled to a housing allowance of HK\$8,000 per month.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out under the section headed "Directors and Senior Management" in the annual report.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### CONNECTED TRANSACTIONS

During the year ended 31st March 2004, no connected transactions were entered into by the Group under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31st March 2004, the interests and short positions of the directors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors of the Company to be notified to the Company and the Stock Exchange, were as follows:

#### Long positions in shares of the Company – interests in the shares of the Company

Name of Directors	Capacity	Number of Shares held	Approximate percentage of the shareholding in the Company
Mr. Yasukawa Yoshihiro	Held by controlled corporation	364,000,000	70%

Note: These shares are registered in the name of Share Able Investments Limited ("Share Able"). Share Able is beneficially owned by Upgain Ventures Group Limited ("Upgain"), Number Great Investments Limited ("Number Great") and UPB Group Inc. ("UPB") in the proportion of 45%, 27.5% and 27.5% respectively. Mr. Yasukawa Yoshihiro holds 60% and 100% equity interests in Upgain and UPB respectively. Mr. Lee Chun Piu, an executive director of the Company, holds 20% equity interests in Upgain.

Save as disclosed above, as at the date of this report, none of the directors of the Company has or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors of the Company to be notified to the Company and the Stock Exchange.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

As at 31st March 2004, other than the interests of the directors of the Company as disclosed under the section headed "Directors' interests and short positions in the shares, underlying shares and debentures of the Company" above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

#### Long positions in shares of the Company – interests in the shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of the shareholding in the Company
Share Able (Note)	Beneficial owner	364,000,000	70%

Note: Share Able is beneficially owned by Upgain, UPB and Number Great in the proportion of 45%, 27.5% and 27.5% respectively. Upgain is 60% owned by Mr. Yasukawa Yoshihiro and 20% owned by Mr. Lee Chun Piu. UPB is 100% owned by Mr. Yasukawa Yoshihiro. Accordingly, each of Upgain and Mr. Yasukawa Yoshihiro is deemed to be interested in the shares of the Company held by Share Able under the SFO.

Save as disclosed above, as at the 31st March 2004, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

### MANAGEMENT CONTRACTS

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

## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	77%
– five largest suppliers combined	100%
Sales	
– the largest customer	22%
– five largest customers combined	75%

None of the directors of the Company, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

### SPONSOR'S INTEREST

According to a sponsorship agreement entered between the Company and Kingston Corporate Finance Limited (the "Sponsor"), for a fee, the Sponsor acts as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 12th November 2002 to 31st March 2005.

As notified by the Sponsor, as at 31st March 2004, neither the Sponsor nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

### COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with the Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year.

### RETIREMENT BENEFITS SCHEME

Particulars of the retirement scheme of the Group are set out in note 15 to the financial statements.

## DIRECTORS' REPORT

### AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The Group's financial statements for the year ended 31st March 2004 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

As at 31st March 2004, the audit committee has two members, comprising the two independent non-executive directors, Mr. Christopher Leu and Mr. Guo Qing.

The audit committee held four meetings during the year and performed the functions specified in the GEM Listing Rules.

### COMPETING BUSINESS

As at 31st March 2004, none of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company and there are no restrictions against such rights under the laws in the Cayman Islands.

### AUDITORS

RSM Nelson Wheeler were appointed as the auditors of the Company in succession to Ernst & Young on 2nd May 2003.

HLB Hodgson Impey Cheng were appointed as the auditors of the Company in succession to RSM Nelson Wheeler who resigned from the office with effect from 28th April 2004. HLB Hodgson Impey Cheng will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**Yasukawa Yoshihiro**  
*Chairman*

23rd June 2004

## AUDITORS' REPORT



國衛會計師事務所  
Hodgson Impey Cheng

Chartered Accountants  
Certified Public Accountants

6/F, Wheelock House  
20 Pedder Street  
Central  
Hong Kong

### **AUDITORS' REPORT TO THE MEMBERS OF VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

We have audited the financial statements on pages 21 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion to you.

#### **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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31st March 2004 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.

**HLB Hodgson Impey Cheng**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong, 23rd June 2004

**CONSOLIDATED INCOME STATEMENT***For the year ended 31st March 2004*

	Note	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>Turnover</b>	6	<b>78,470</b>	42,039
Cost of sales		<b>(71,612)</b>	(35,157)
Gross profit		<b>6,858</b>	6,882
Other revenue	6	<b>60</b>	34
Distribution expenses		<b>(118)</b>	(88)
Administrative expenses		<b>(2,624)</b>	(2,749)
Other operating expenses		<b>(1,189)</b>	(865)
Profit from operations	7	<b>2,987</b>	3,214
Finance costs	8	<b>(44)</b>	(122)
<b>Profit before taxation</b>		<b>2,943</b>	3,092
Taxation	11	<b>(956)</b>	(206)
<b>Profit attributable to shareholders</b>	12	<b>1,987</b>	2,886
Dividend	13	<b>-</b>	-
Earnings per share – basic	14	<b>0.38 cent</b>	0.61 cent

All of the Group's activities are classed as continuing.

The accompanying notes form an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEET**

At 31st March 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	16	8,238	842
Non-trading securities	18	5,400	4,000
		<b>13,638</b>	4,842
<b>Current assets</b>			
Trade receivables	19	9,689	22,138
Prepayments, deposits and other receivables		3,022	3,083
Pledged bank deposits		–	1,722
Cash and bank balances		3,854	8,540
		<b>16,565</b>	35,483
<b>Current liabilities</b>			
Trade payables	20	1,976	14,410
Accrued liabilities and other payables		417	719
Taxation		129	206
Bank overdrafts		–	1,722
		<b>2,522</b>	17,057
<b>Net current assets</b>		<b>14,043</b>	18,426
<b>Total assets less current liabilities</b>		<b>27,681</b>	23,268
<b>Non-current liabilities</b>			
Deferred taxation	21	1,026	–
<b>Net Assets</b>		<b>26,655</b>	23,268
<b>CAPITAL AND RESERVES</b>			
Share capital	22	5,200	5,200
Reserves	24	21,455	18,068
<b>SHAREHOLDERS' FUNDS</b>		<b>26,655</b>	23,268

Approved by the Board of Directors on 23rd June 2004 and signed on its behalf by:

**Zhong Ming Ying**  
Director

**Wang Li Hua**  
Director

The accompanying notes form an integral part of these financial statements.



**BALANCE SHEET**

At 31st March 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	17	21,322	21,246
<b>Current assets</b>			
Cash and bank balances		8	8
<b>Current liabilities</b>			
Accrued liabilities and other payables		171	160
Taxation		6	–
		177	160
<b>Net current liabilities</b>		<b>(169)</b>	<b>(152)</b>
<b>NET ASSETS</b>		<b>21,153</b>	<b>21,094</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	22	5,200	5,200
Reserves	24	15,953	15,894
<b>SHAREHOLDERS' FUNDS</b>		<b>21,153</b>	<b>21,094</b>

Approved by the Board of Directors on 23rd June 2004 and signed on its behalf by:

**Zhong Ming Ying**  
Director

**Wang Li Hua**  
Director

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the year ended 31st March 2004*

	Note	2004 HK\$'000	2003 HK\$'000
<b>Total equity at 1st April 2003/2002</b>		<b>23,268</b>	1,374
Surplus on revaluation of non-trading securities at market value		<b>1,400</b>	–
Issue of shares for cash to Pre-IPO investors	22, 24	–	6,000
Issue of shares for cash by means of placing	22, 24	–	20,000
Expenses incurred in connection with the issue of shares		–	(6,992)
Net profit for the year		<b>1,987</b>	2,886
<b>Total equity as 31st March 2004/2003</b>		<b>26,655</b>	23,268

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31st March 2004

	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	<b>2,943</b>	3,092
Adjustments for:		
Depreciation	<b>403</b>	73
Interest income	<b>(8)</b>	(34)
Interest expenses	<b>44</b>	122
Operating cash flows before movements in working capital	<b>3,382</b>	3,253
Decrease/(increase) in trade receivables	<b>12,449</b>	(20,837)
Decrease/(increase) in prepayments, deposits and other receivables	<b>61</b>	(2,020)
Decrease in amount due from a director	<b>-</b>	400
(Decrease)/increase in trade payables	<b>(12,434)</b>	12,937
Decrease in accrued liabilities and other payables	<b>(302)</b>	(2,506)
Net cash generated from/(used in) operations	<b>3,156</b>	(8,773)
Interest paid	<b>(44)</b>	(122)
Tax paid	<b>(7)</b>	-
Net cash generated from/(used in) operating activities	<b>3,105</b>	(8,895)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<b>(7,799)</b>	(843)
Payments for acquisition of a subsidiary	<b>-</b>	(1,008)
Decrease/(increase) in pledged bank deposits	<b>1,722</b>	(1,722)
Interest received	<b>8</b>	34
Net cash used in investing activities	<b>(6,069)</b>	(3,539)

**CONSOLIDATED CASH FLOW STATEMENT***For the year ended 31st March 2004*

	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares to Pre-IPO Investors	–	6,000
Proceeds from new issue of shares less issue expenses	–	13,008
Net cash generated from financing activities	–	19,008
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,964)</b>	6,574
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>6,818</b>	244
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>3,854</b>	6,818
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>3,854</b>	8,540
Bank overdrafts	–	(1,722)
	<b>3,854</b>	6,818

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 1. CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 27th June 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation scheme ("Group Reorganisation") of the Group in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the Group on 19th October 2002. Further details of the Group Reorganisation are set out in the prospectus issued by the Company dated 30th October 2002 ("Prospectus"). The Company's shares were listed on GEM on 12th November 2002.

### 2. CORPORATE INFORMATION

The registered office of the Company is located at Room 4301, 43rd Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in Note 17 to the financial statements.

The directors regard Share Able Investments Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

### 3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group adopted for the first time HKFRS – Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants (the "HKSA"). The term of HKFRS is inclusive of SSAPs and interpretations approved by HKSA.

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements are summarised as follows:

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (revised) has no material impact on the Group's financial statements in prior years and comparative figures have not been restated.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the HKFRS issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The HKFRS is inclusive of SSAPs and Interpretation issued by the HKSA. These financial statements also comply with applicable disclosure provision of Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

#### (a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention and revaluation of non-trading securities.

#### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

#### (c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

#### (d) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one 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 majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

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

#### (f) Fixed assets

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of fixed assets, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Plant and machinery	10%
Furniture, fixtures and equipment	20%
Computers	25%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

##### *i. Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

##### *ii. Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.



## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis, over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

During the year ended 31st March 2004, all development costs have been expensed as no expenses satisfied the criteria for capitalisation as an asset.

#### (i) Trade receivables

Trade receivables, which generally have credit terms of 60-90 days, are recognised and carried at the original invoiced amount, less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

#### (j) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Current assets and current liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

#### (l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that effects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, the rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

#### (n) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

#### (o) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1st December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

#### (p) Foreign currencies

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Contingent liabilities and contingent assets

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (r) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the income statement.

#### (s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (t) Related party transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### (u) 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 and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets and receivables, and mainly exclude non-trading securities and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### 5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

For management purposes, the Group is currently organised into the following business segments – integrated circuit recorders ("IC recorders") product segment, mpeg-1 audio layer-3 players ("MP3 players") product segment and digital versatile disc players ("DVD players") product segment. These divisions are the basis on which the Group reports its primary segment information.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 5. SEGMENT INFORMATION (continued)

## (a) Business segments

The following tables present turnover, results and certain assets, liabilities and expenditure information of the Group's business segments.

## For the year ended 31st March 2004

	IC recorders HK\$'000	MP3 players HK\$'000	DVD players HK\$'000	IC HK\$'000	Con- solidated HK\$'000
<b>TURNOVER</b>					
External sales	8,337	5,214	51,070	13,849	78,470
<b>RESULTS</b>					
Segment results	711	543	4,014	1,265	6,533
Interest income					8
Sundry Income					18
Finance costs					(44)
Exchange gain					34
Unallocated costs					(3,606)
Profit before taxation					2,943
Taxation					(956)
Net profit for the year					1,987
<b>As at 31st March 2004</b>					
<b>ASSETS</b>					
Segment assets	1,099	836	18,861	-	20,796
Unallocated assets					9,407
					30,203
<b>LIABILITIES</b>					
Segment liabilities	-	82	1,894	-	1,976
Unallocated liabilities					1,572
					3,548
<b>OTHER INFORMATION</b>					
Capital expenditure	-	-	7,799	-	7,799
Unallocated capital expenditure					-
					7,799
Depreciation	-	-	325	-	325
Unallocated depreciation					78
					403

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 5. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

For the year ended 31st March 2003

	IC recorders HK\$'000	MP3 players HK\$'000	DVD players HK\$'000	Con- solidated HK\$'000
<b>TURNOVER</b>				
External sales	11,290	11,952	18,797	42,039
<b>RESULTS</b>				
Segment results	2,191	2,614	1,964	6,769
Interest income				34
Finance costs				(122)
Unallocated costs				(3,589)
Profit before taxation				3,092
Taxation				(206)
Net profit for the year				2,886
As at 31st March 2003				
<b>ASSETS</b>				
Segment assets	2,993	4,325	18,612	25,930
Unallocated assets				14,395
				40,325
<b>LIABILITIES</b>				
Segment liabilities	14	14	14,382	14,410
Unallocated liabilities				2,647
				17,057
<b>OTHER INFORMATION</b>				
Capital expenditure	–	–	826	826
Unallocated capital expenditure				17
				843
Depreciation	–	–	33	33
Unallocated depreciation				40
				73

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 5. SEGMENT INFORMATION (continued)

## (b) Geographical segments

In determining the Group's geographical segments, revenue is attributable to segments based on the location of customers and assets are attributable to the segments based on the location of the assets.

Geographical segments are as follows:

## For the year ended 31st March 2004

	PRC (including Hong Kong) HK\$'000	Singapore HK\$'000	Japan HK\$'000	Others HK\$'000	Con- solidated HK\$'000
<b>TURNOVER</b>					
External sales	67,431	10,191	31	817	78,470
<b>ASSETS</b>					
Segment assets	30,203	-	-	-	30,203
<b>OTHER INFORMATION</b>					
Capital expenditure	7,799	-	-	-	7,799

## For the year ended 31st March 2003

	PRC (including Hong Kong) HK\$'000	Singapore HK\$'000	Japan HK\$'000	Others HK\$'000	Con- solidated HK\$'000
<b>TURNOVER</b>					
External sales	38,177	-	3,746	116	42,039
<b>ASSETS</b>					
Segment assets	40,325	-	-	-	40,325
<b>OTHER INFORMATION</b>					
Capital expenditure	843	-	-	-	843



## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 6. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, after allowance for returns and trade discount when applicable. All significant inter company transactions and balances within the Group have been eliminated on consolidation.

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Turnover		
Sale of products	<b>78,470</b>	42,039
Other revenue		
Exchange gains	<b>34</b>	–
Interest income	<b>8</b>	34
Sundry income	<b>18</b>	–
	<b>60</b>	34
<b>Total revenue</b>	<b>78,530</b>	42,073

## 7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Auditors' remuneration	<b>280</b>	320
Depreciation	<b>403</b>	73
Operating lease rentals in respect of rented premises	<b>157</b>	227
Research and development expenditures	<b>1,189</b>	865
Staff costs (excluding directors' emoluments in note 9)		
Wages and salaries	<b>164</b>	598
Retirement benefits scheme contributions	<b>8</b>	31
	<b>172</b>	629

## 8. FINANCE COSTS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Interest on bank overdrafts repayable with 5 years	<b>44</b>	122

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 9. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Fees		
Executive directors	–	–
Independent non-executive directors	90	50
	<b>90</b>	<b>50</b>
Other emoluments (executive directors)		
Salaries, housing benefits and other benefits	438	532
Retirement benefits scheme contributions	12	12
	<b>450</b>	<b>544</b>
	<b>540</b>	<b>594</b>

All of the directors' emoluments fell within the nil to HK\$1,000,000 band for the two years ended 31st March 2004.

The Company's executive directors received emoluments of approximately HK\$350,000 (2003: HK\$544,000) for the year ended 31st March 2004.

One of the Independent non-executive directors received emoluments of HK\$90,000 (2003: HK\$50,000) for the year ended 31st March 2004. No emoluments were paid to the remaining Independent non-executive director during the current and prior years.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31st March 2004 (31st March 2003: Nil).

## 10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2003: two) directors of the Company, details of whose emoluments are set out in note 9 to the financial statements. The emoluments of the remaining two (2003: three) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, housing benefits and other benefits	164	427
Retirement benefits scheme contributions	8	22
	<b>172</b>	<b>449</b>

The emoluments of the two (2003: three) non-directors, highest paid individuals fell within the nil to HK\$1,000,000 band for the two years ended 31st March 2003 and 2004. No emoluments were paid by the Group to the directors and the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 11. TAXATION

	2004 HK\$'000	2003 HK\$'000
Hong Kong Profits Tax for the year	13	206
Over provision in prior years	(83)	–
	(70)	206
Deferred tax (note 21):		
– current year	1,026	–
	956	206

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year.

During the year, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balance at the balance sheet date.

The charge for the year ended 31st March 2004 and 31st March 2003 can be reconciled to the profit per the income statement as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before taxation	2,943		3,092	
Tax at the domestic income tax rate of 17.5% (2003: 16%)	515	17.5	494	16.0
Tax effect of utilisation of tax losses	(506)	(17.2)	(288)	(9.3)
Tax effect of tax loss of a subsidiary not provided	4	0.1	–	–
Over-provision in prior years	(83)	(2.8)	–	–
Adjustment in respect of current deferred tax	1,026	34.9	–	–
Tax expense and effective tax rate for the year	956	32.5	206	6.7

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$59,000 (2003: HK\$20,000) for the year ended 31st March 2004 (Period ended 31st March 2003: HK\$20,000).

### 13. DIVIDEND

The board of directors did not recommend the payment of any dividend for the year ended 31st March 2004 (2003: Nil).

### 14. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share for the year is based on the profit for the year of HK\$1,987,000 (2003: HK\$2,886,000) and on the weighted average of 520,000,000 (2003: 473,333,333) ordinary shares in issue during the year.

There is no diluted earnings per share presented because there were no potential dilutive ordinary shares outstanding during the two years ended 31st March 2003 and 2004.

### 15. RETIREMENT BENEFITS SCHEMES

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

During the year, the Group made retirement benefits scheme contributions amounting to HK\$20,000 (2003: HK\$43,000).

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 16. FIXED ASSETS

## THE GROUP

	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Total HK\$'000
<b>Cost</b>				
At 1st April 2003	656	179	181	1,016
Additions	7,799	–	–	7,799
<b>At 31st March 2004</b>	<b>8,455</b>	<b>179</b>	<b>181</b>	<b>8,815</b>
<b>Accumulated depreciation</b>				
At 1st April 2003	22	84	68	174
Charge for the year	325	36	42	403
<b>At 31st March 2004</b>	<b>347</b>	<b>120</b>	<b>110</b>	<b>577</b>
<b>Net book value</b>				
<b>At 31st March 2004</b>	<b>8,108</b>	<b>59</b>	<b>71</b>	<b>8,238</b>
At 31st March 2003	634	95	113	842

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 17. INTERESTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	2,066	2,066
Amounts due from subsidiaries	19,256	19,180
	<b>21,322</b>	21,246

The amounts due are unsecured, interest free and recoverable on demand.

Particulars of the Company's principal subsidiaries as at 31st March 2004 are as follows:

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Dynamic Choice Technology Limited	The British Virgin Islands	US\$1,000	100%	–	Investment holding
Cyclone Technology Limited	Hong Kong	HK\$1,500,000	–	100%	Sales of audio and visual products
Speedweight Technology Limited	The British Virgin Islands	US\$1,000	–	100%	Sales of audio and visual products
Everyday Investments Limited	The British Virgin Islands	US\$1,000	–	100%	Investment in listed securities

The principal place of operations of all the subsidiaries were in Hong Kong.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 18. NON-TRADING SECURITIES

	2004 HK\$'000	2003 HK\$'000
Equity securities, at market value Listed in Hong Kong	5,400	4,000

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

**19. TRADE RECEIVABLES**

The credit period granted by the Group to its customers is normally 60 – 90 days.

The aged analysis of trade receivables is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Within 30 days	<b>3,063</b>	10,091
31 – 60 days	<b>3,041</b>	6,546
61 – 90 days	<b>3,585</b>	5,501
	<b>9,689</b>	22,138

**20. TRADE PAYABLES**

The aged analysis of trade payables is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Within 30 days	<b>1,976</b>	5,528
31 – 60 days	–	5,699
61 – 90 days	–	3,183
	<b>1,976</b>	14,410

**21. DEFERRED TAXATION**

The deferred tax liabilities in respect of accelerated tax depreciation were recognised by the Group and movements thereon during the year are as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
At 1st April 2003/2002	–	–
Charge to income statement for the year	<b>1,026</b>	–
At 31st March 2004/2003	<b>1,026</b>	–

The Group has not recognised deferred tax assets in respect of tax loss due to the unpredictability of the future profit stream.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 22. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised (ordinary shares of HK\$0.01 each):		
Upon incorporation of the Company	10,000,000	100
Increase of authorised share capital (note)	9,990,000,000	99,900
At 31st March 2003	10,000,000,000	100,000
<b>At 31st March 2004</b>	<b>10,000,000,000</b>	<b>100,000</b>

Note: Pursuant to the written resolution passed on 19th October 2002 by the sole shareholder of the Company, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of 9,990,000,000 additional shares of HK\$0.01 each.

	Note	Number of shares	HK\$'000
Issued and fully paid (ordinary shares of HK\$0.01 each)			
Issue of shares	(a)	1	–
Issue of shares in accordance with the Group Reorganisation	(b)	7,785,999	78
Pro-forma share capital at 31st March 2002		7,786,000	78
Issue of shares to Pre-IPO Investors	(c)	1,014,000	10
Placing of new shares	(d)	80,000,000	800
Capitalisation on issue of shares	(d)	431,200,000	4,312
At 31st March 2003		520,000,000	5,200
<b>At 31st March 2004</b>		<b>520,000,000</b>	<b>5,200</b>

(a) The Company was incorporated on 27th June 2002 with an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each and one share of HK\$0.01 credited as fully paid, was issued and allotted to the subscriber of the Company.



## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 22. SHARE CAPITAL (continued)

- (b) On 19th October 2002, the Company issued a total number of 7,785,999 new shares of HK\$0.01 each for shares in a subsidiary, Dynamic Choice Technology Limited, pursuant to the Group Reorganisation, details of which were set out in the paragraph headed "Corporate Reorganisation" in Appendix IV of the Prospectus.
- (c) Basic Concept International Limited, Manifest Power Limited and Top Hunter Investments Limited (collectively referred to as the "Pre-IPO Investors") subscribed for 1,014,000 shares at the consideration of HK\$6,000,000 which was paid by the Pre-IPO Investors in September 2002. On 19th October 2002, the Company accordingly allotted and issued such number of shares to the Pre-IPO Investors.
- (d) On 8th November 2002, 80,000,000 shares of HK\$0.01 each were issued by way of placing at a price of HK\$0.25 per share (the "Placing") for a total cash consideration of HK\$20,000,000. The excess over the par value of the shares issued was credited to the share premium account. At the same date, 431,200,000 shares credited as fully paid, were allotted and issued at par to the shareholders whose names appeared on the register of members of the Company on 28th October 2002 in their existing holdings by way of capitalisation of a total sum of HK\$4,312,000 out of the share premium account of the Company arising from the Placing.

As the Company was incorporated on 27th June 2002, there were no issued share capital of the Company as at 31st March 2002.

All the shares which were issued during the period rank pari passu in all respects.

### 23. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to written resolutions passed on 19th October 2002 (the "Scheme") for the primary purpose of providing incentives to directors, eligible employees and participants who have contributed to the Group, and will expire in 12th November 2012. Under the Scheme, the board of directors of the Company may grant options to full-time or part-time employees, including directors (executive and non-executive) and any advisor, consultant, supplier, distributor, contractor, agent, business partner, promoter, service provider or customer of the Company or any of its subsidiaries, to subscribe for shares in the Company.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 23. SHARE OPTION SCHEME (continued)

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company immediately upon the listing of the shares on the Stock Exchange ("Scheme Mandate Limit"), without prior approval from the Company's shareholders. Options lapsed in accordance with the terms of the share option scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of his, her or its associates in the 12-month period up to and including the date of offer of the option exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the board of directors of the Company and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

No option has been granted by the Company since the adoption of the Scheme.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 24. RESERVES

(a) The Group

	Share premium (note c) HK\$'000	Investment revaluation reserve HK\$'000	Accumulated (losses)/ profits HK\$'000	Total HK\$'000
At 1st April 2002	3,930	–	(2,634)	1,296
Issue of shares for cash to Pre-IPO Investors	5,990	–	–	5,990
Capitalisation on issue of shares	(4,312)	–	–	(4,312)
Issue of shares for cash by means of placing	19,200	–	–	19,200
Expenses incurred in connection with the issue of shares	(6,992)	–	–	(6,992)
Net profit for the year	–	–	2,886	2,886
At 31st March 2003 and 1st April 2003	17,816	–	252	18,068
Surplus on revaluation of the non-trading securities at market value	–	1,400	–	1,400
Net profit for the year	–	–	1,987	1,987
<b>At 31st March 2004</b>	<b>17,816</b>	<b>1,400</b>	<b>2,239</b>	<b>21,455</b>

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

## 24. RESERVES (continued)

## (b) The Company

	Share premium (note d) HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Pursuant to Group Reorganisation Premium arising from issue of shares for cash to Pre-IPO Investors	1,988	–	1,988
Capitalisation on issue of shares Premium arising from issue of shares for cash by means of placing	5,990	–	5,990
	(4,312)	–	(4,312)
Expenses incurred in connection with the issue of shares	19,200	–	19,200
Net profit for the year of 2003	(6,992)	–	(6,992)
	–	20	20
At 31st March 2003 and 1st April 2003	15,874	20	15,894
Net Profit for the year	–	59	59
<b>At 31st March 2004</b>	<b>15,874</b>	<b>79</b>	<b>15,953</b>

- (c) The share premium account of the Group includes (i) the premium arising from the issue of shares of the Company during the year; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the reorganization scheme (the "Group Reorganization") set out in the Company's prospectus dated 30th October 2002, over the nominal value of the shares of the Company issued in exchange therefor.
- (d) The share premium account of the Company includes (i) the premium arising from the issue of shares of the Company during the year; and (ii) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in the Company's prospectus dated 30th October 2002, over the nominal value of the shares of the Company issued in exchange therefor.
- (e) The Company's reserves available for distribution to shareholders as at 31st March 2004 represent the aggregate of share premium and accumulated profits, and amount to HK\$15,953,000.

## NOTES TO THE FINANCIAL STATEMENTS

31st March 2004

### 25. OPERATING LEASE COMMITMENTS

The Group leases office premises under operating lease arrangement which is negotiated for terms of two years.

At 31st March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2004</b> <b>HK\$'000</b>	<b>Group</b> 2003 HK\$'000
Within one year	132	30

### 26. ACQUISITION OF A SUBSIDIARY

During the year ended 31st March 2003, the Group acquired 100% equity interest in Everyday Investments Limited. The fair value of assets acquired and liabilities assumed were as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Net assets acquired</b>		
Non-trading securities	-	4,000
Other liabilities	-	(1,000)
Amount due to a shareholder	-	(1,992)
Cash outflow on acquisition of subsidiary	-	1,008
Satisfied by:		
Cash consideration	-	(1,008)

The subsidiary acquired in the previous year had no material effect on the cash flows of the Group for the year ended 31st March 2003.

### 27. CONTINGENT LIABILITIES

At 31st March 2004, the Group did not have any significant contingent liabilities.

As at 31st March 2003, the Company executed a corporate guarantee as part of the security for general banking facilities granted to a subsidiary to the extent of HK\$10,000,000.

### 28. CAPITAL COMMITMENTS

At 31st March 2004, the Group did not have any significant commitment (2003: Nil).

### 29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23rd June 2004.

**FINANCIAL SUMMARY***For the year ended 31st March 2004*

The results and assets and liabilities of the Group for the last four financial years are as follows:

	<b>For the year ended 31st March</b>			
	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>RESULTS</b>				
Turnover	<b>78,470</b>	42,039	15,254	13,395
Profit/(loss) before taxation	<b>2,943</b>	3,092	800	(1,046)
Taxation	<b>(956)</b>	(206)	–	–
Profit/(loss) attributable to shareholders	<b>1,987</b>	2,886	800	(1,046)
Earnings per share Basic	<b>0.38 cent</b>	0.61 cent	0.18 cent	(0.24) cent
<b>As at 31st March</b>				
	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>ASSETS AND LIABILITIES</b>				
Total assets	<b>30,203</b>	40,325	3,080	3,876
Total liabilities	<b>(3,548)</b>	(17,057)	(1,706)	(5,802)
Shareholders' funds	<b>26,655</b>	23,268	1,374	(1,926)

## Notes:

1. The results for the years ended 31st March 2001 and 2002 were extracted from the Prospectus of the Company dated 30th October 2002. The earnings per share for the two years were computed based on 440,000,000 shares that would have been in issue throughout the two years on the assumption that the Group Reorganisation has been completed as at 1st April 2000.
2. Assets and liabilities of the Group as at 31st March 2001 and 2002 were extracted from the Prospectus of the Company dated 30th October 2002.
3. The results of the Group for the two years ended 31st March 2003 and 2004, its assets and liabilities as at 31st March 2003 and 2004 are set out in the financial statements on pages 21 and 22 respectively.