

## **I. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The Company was incorporated on 5 July 2002 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 33.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire issued share capital of Sunlink Technologies Holdings Limited and thereby became the holding company of the Group on 20 December 2002. Details of the Group Reorganisation are set out in the prospectus dated 18 February 2003 issued by the Company.

On 25 February 2003, 60,000,000 new ordinary shares of the Company of HK\$0.1 each were issued at HK\$0.5 per share for cash through an initial public offering by way of placing and public offer. On the same date, 339,000,000 ordinary shares of HK\$0.1 each were allotted and issued, credited as fully paid at par, to the holders of shares of the Company on the register of members at the close of business on 12 February 2003 in proportion their existing holding by way of capitalization of the sum of HK\$33,900,000 standing at the credit of the share premium account of the Company following the placing and public offer mentioned above ("Capitalisation Issue").

The shares of the Company have been listed on the Stock Exchange with effect from 3 March 2003.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

## 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Goodwill**

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

Goodwill arising on acquisition 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 profit or loss on disposal.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

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

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Management service, commission and engineering income are recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the lease.

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to its present working condition and location for its intended use.

The gain or loss arising on the disposal or retirement 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.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Building	Over the term of the lease or forty years, whichever is shorter
Office equipment	20%–25%
Furniture and fixtures	20%–25%
Leasehold improvement	20%–25%
Computer equipment	30%–50%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Investment properties (continued)

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

### Investments in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated to Hong Kong dollars at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations which are denominated in currencies other than Hong Kong dollars are translated to Hong Kong dollars at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange difference arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

### Operating leases

Rental under operating leases are charged to the income statement on a straight-line basis over the relevant terms of leases.

### Retirement benefit costs

The contributions payable to the retirement benefit schemes are charged to the income statement as expense as they fall due.

**2. PRINCIPAL ACCOUNTING POLICIES (continued)****Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial information. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial information to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**3. TURNOVER**

Turnover represents the net amount received and receivable for goods sold and services provided, during the year.

#### 4. SEGMENT INFORMATION

##### Business segments

For management purposes, the Group is currently organised into two operating divisions — distribution of semiconductors and development and provision of electronic turnkey device solutions. These divisions are the basis on which the Group reports its primary segment information. Inter-segment sales were carried out at market price.

Segment information about these businesses is presented below.

##### Income statement

for the year ended 31 December 2002

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Revenue</b>				
External sales	406,086	32,101	—	438,187
Inter-segment sales	625	4,658	(5,283)	—
	<b>406,711</b>	<b>36,759</b>	<b>(5,283)</b>	<b>438,187</b>
Segment results	<b>35,290</b>	<b>5,804</b>	—	<b>41,094</b>
Unallocated corporate revenue				258
Unallocated corporate expense				(100)
Profit from operations				41,252
Finance costs				(3,040)
Profit before taxation				38,212
Taxation				(6,486)
Profit before minority interests				31,726
Minority interests				(1,034)
Profit for the year				<b>30,692</b>

## Notes to the Financial Statements

for the year ended 31 December 2002

**4. SEGMENT INFORMATION (continued)****Balance sheet**

as at 31 December 2002

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	144,211	34,782	(7,454)	171,539
Unallocated corporate assets				50,214
Consolidated total assets				<b>221,753</b>
<b>Liabilities</b>				
Segment liabilities	68,767	9,930	(7,454)	71,243
Unallocated corporate liabilities				90,826
Consolidated total liabilities				<b>162,069</b>
<b>Other information</b>				
Additions to property, plant and equipment and intangible assets	10,254	574	—	10,828
Depreciation and amortisation of property, plant and equipment	331	937	—	1,268
Amortisation of goodwill	659	—	—	659



**4. SEGMENT INFORMATION (continued)****Income statement***for the year ended 31 December 2001*

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Revenue</b>				
External sales	316,354	42,906	—	359,260
Inter-segment sales	627	—	(627)	—
	316,981	42,906	(627)	359,260
Segment results	24,981	7,923	—	32,904
Unallocated corporate revenue				616
Profit from operations				33,520
Finance costs				(1,500)
Profit before taxation				32,020
Taxation				(5,456)
Profit before minority interests				26,564
Minority interests				(2,928)
Profit for the year				23,636

## Notes to the Financial Statements

for the year ended 31 December 2002

**4. SEGMENT INFORMATION (continued)****Balance sheet**

as at 31 December 2001

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	68,263	15,752	(202)	83,813
Unallocated corporate assets				64,733
<b>Consolidated total assets</b>				<b>148,546</b>
<b>Liabilities</b>				
Segment liabilities	54,238	12,419	(202)	66,455
Unallocated corporate liabilities				31,327
<b>Consolidated total liabilities</b>				<b>97,782</b>
<b>Other information</b>				
Additions to property, plant and equipment	119	2,230	—	2,349
Depreciation and amortisation of property, plant and equipment	328	697	—	1,025
Amortisation of goodwill	277	—	—	277

**Geographical segments**

The Group's operations are principally located in Hong Kong and the People's Republic of China ("PRC").

The following table provides an analysis of the Group's sales by geographical location of customers, irrespective of the origin of the goods/services:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Hong Kong	<b>286,123</b>	276,422
PRC	<b>138,683</b>	73,554
Others	<b>13,381</b>	9,284
	<b>438,187</b>	359,260

**4. SEGMENT INFORMATION (continued)**

The following is an analysis of the carrying amount of segment assets analysed by the geographical area in which the assets are located at the balance sheet date and additions to property, plant and equipment and intangible assets during the year:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	<b>173,609</b>	127,155	<b>10,257</b>	245
PRC	<b>47,437</b>	18,827	<b>571</b>	2,104
Others	<b>707</b>	2,564	<b>—</b>	—
	<b>221,753</b>	148,546	<b>10,828</b>	2,349

**5. OTHER OPERATING INCOME**

	2002	2001
	HK\$'000	HK\$'000
Commission income	<b>3,066</b>	2,072
Compensation income	<b>708</b>	—
Engineering income	<b>201</b>	118
Gain on disposal of property, plant and equipment	<b>12</b>	—
Interest income	<b>258</b>	616
Management service income	<b>682</b>	1,785
Programming income	<b>334</b>	—
Research and marketing service income	<b>440</b>	—
Release of negative goodwill	<b>58</b>	—
Rental income	<b>53</b>	—
Sample income	<b>255</b>	110
Sundry income	<b>850</b>	1,331
	<b>6,917</b>	6,032

## Notes to the Financial Statements

for the year ended 31 December 2002

**6. PROFIT FROM OPERATIONS**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Profit from operations is arrived at after charging:		
Amortisation of goodwill included in general and administrative expenses	<b>659</b>	277
Auditors' remuneration	<b>680</b>	400
Depreciation and amortisation of property, plant and equipment		
own assets	<b>1,256</b>	1,025
asset held under a finance lease	<b>12</b>	—
Exchange loss	<b>118</b>	321
Loss on dilution of interest in subsidiaries	<b>—</b>	357
Operating lease in respect of		
land and building	<b>1,899</b>	1,986
plant and equipment	<b>4</b>	4
Allowance for doubtful debts included in general and administrative expenses	<b>2,624</b>	1,050
Allowance for slow moving inventories included in cost of sales	<b>1,198</b>	2,378
Preliminary expenses written off	<b>—</b>	8
Staff costs inclusive of directors' remuneration (note 8)	<b>22,882</b>	19,815
Unrealised loss on investment in securities	<b>20</b>	12

**7. FINANCE COSTS**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interest on bank borrowings wholly repayable within five years	<b>2,143</b>	1,439
Interest on other borrowings	<b>892</b>	61
Finance lease charges	<b>5</b>	—
	<b>3,040</b>	1,500

**8. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES**

Directors' remunerations paid by the Group to the directors during the year are as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Fees	—	—
Basic salaries, housing allowances, other allowances and benefits in kind	<b>2,764</b>	2,332
Bonus	—	1,037
Retirement scheme contributions	<b>60</b>	60
	<b>2,824</b>	3,429

The remunerations of the directors were within the following band:

	<b>2002</b>	2001
	<b>Number of</b>	Number of
	<b>directors</b>	directors
Nil to HK\$1,000,000	<b>8</b>	8

During the year, no remuneration was paid or payable to independent non-executive directors of the Company.

The five highest paid individuals of the Group in 2002 and 2001 were all directors of the Company. Details of their remunerations are included in above.

During both years, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any remunerations during both years.

## Notes to the Financial Statements

for the year ended 31 December 2002

**9. TAXATION**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
current year	<b>6,636</b>	5,461
overprovision in prior year	<b>(150)</b>	(5)
	<b>6,486</b>	5,456

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the years.

Details of deferred taxation are set out in note 24.

**10. DIVIDENDS**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Dividends paid by subsidiaries of the Company to the then shareholders prior to the Group Reorganisation	<b>5,940</b>	12,476
Interim dividends	<b>10,000</b>	—
	<b>15,940</b>	12,476

**11. EARNINGS PER SHARE**

The calculations of the basic earnings per share is based on the profit for the year of HK\$30,692,000 (2001: HK\$23,636,000) and on 340,000,000 shares which represents 1,000,000 shares in issue as at 31 December 2002 and 339,000,000 shares to be issued pursuant to the Capitalisation Issue upon the Group Reorganisation, deemed to be outstanding throughout both years.

**12. INVESTMENT PROPERTIES**

The investment properties were acquired by the Group in May 2002 at a consideration of HK\$1,814,000 and were valued at their open market value at 31 December 2002 of approximately same amount by BMI Appraisals Limited, an independent valuer, on an open market value basis.

Investment properties, which are situated in Hong Kong and held under medium term leases, are held for rental purpose and have been pledged to secure banking facilities granted to the Group.

**13. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold land and buildings</b>	<b>Leasehold improve- ments</b>	<b>Office equipment</b>	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>							
At 1 January 2002	—	2,823	3,751	1,469	171	147	8,361
Exchange realignment	—	—	(1)	—	—	—	(1)
Additions	6,333	148	533	412	38	—	7,464
Disposals	—	—	(65)	—	—	—	(65)
At 31 December 2002	6,333	2,971	4,218	1,881	209	147	15,759
<b>DEPRECIATION AND AMORTISATION</b>							
At 1 January 2002	—	1,604	3,124	527	63	147	5,465
Provided for the year	87	338	463	290	90	—	1,268
Eliminated on disposals	—	—	(65)	—	—	—	(65)
At 31 December 2002	87	1,942	3,522	817	153	147	6,668
<b>NET BOOK VALUES</b>							
At 31 December 2002	6,246	1,029	696	1,064	56	—	9,091
At 31 December 2001	—	1,219	627	942	108	—	2,896

Land and buildings are situated in Hong Kong and held under medium term leases.

Included in the net asset values of the property, plant and equipment as at 31 December 2002 was an amount of HK\$66,300 in respect of an asset held under a finance lease. No assets were held under finance lease at 31 December 2001.

## Notes to the Financial Statements

for the year ended 31 December 2002

**14. GOODWILL**

	HK\$'000
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COST	
At 1 January 2002	553
Acquisition of additional interests in subsidiaries	1,550
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At 31 December 2002	2,103
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AMORTISATION	
At 1 January 2002	346
Provided for the year	659
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At 31 December 2002	1,005
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NET BOOK VALUE	
At 31 December 2002	1,098
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At 31 December 2001	207
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The amortisation period adopted for goodwill is two years.

**15. NEGATIVE GOODWILL**

	HK\$'000
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GROSS AMOUNT	
Acquisition of additional interests in subsidiaries and balance at 31 December 2002	198
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RELEASED TO INCOME	
Released for the year and balance at 31 December 2002	58
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CARRYING AMOUNT	
At 31 December 2002	140
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The negative goodwill is released to income on a straight-line basis over 2 years, being the remaining weighted average useful life of the depreciable assets of the subsidiaries in which additional interests acquired.



**16. INVESTMENTS IN SUBSIDIARIES**

	<b>THE COMPANY 2002 HK\$'000</b>
Unlisted shares, at cost	<b>69,560</b>

The cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation.

Particulars of the Company's subsidiaries at 31 December 2002 are set out in note 33.

**17. INVESTMENT IN SECURITIES**

	<b>2002 HK\$'000</b>	2001 HK\$'000
Other investment:		
Listed equity securities in Hong Kong, at market value	<b>6</b>	25
Investment securities:		
Unlisted debts securities, at cost	<b>2,964</b>	1,070
	<b>2,970</b>	1,095
Non-current	<b>2,964</b>	1,014
Current	<b>6</b>	81
	<b>2,970</b>	1,095

**18. INVENTORIES**

	<b>2002 HK\$'000</b>	2001 HK\$'000
Raw materials	<b>4,822</b>	3,276
Work-in-progress	<b>1,901</b>	943
Finished goods	<b>20,489</b>	13,891
	<b>27,212</b>	18,110
Finished goods stated at net realisable value	<b>—</b>	394

## Notes to the Financial Statements

for the year ended 31 December 2002

**19. DEBTORS, DEPOSITS AND PREPAYMENTS**

The Group has a policy of allowing average credit period of 14 to 90 days to its trade customers. For certain customers with long-established relationship and good past settlement histories, a longer credit period may be granted.

An aged analysis of trade debtors is as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within 30 days	<b>36,795</b>	27,520
Between 31 to 60 days	<b>29,925</b>	17,989
Over 60 days	<b>38,141</b>	6,549
	<b>104,861</b>	52,058
Other debtors, deposits and prepayments	<b>29,417</b>	8,155
	<b>134,278</b>	60,213

**20. AMOUNTS DUE FROM RELATED COMPANIES**

Particulars of the amounts due from related companies are as follows:

	<b>Balance at</b>	Balance at	Maximum
	<b>31 December</b>	1 January	amount
	<b>2002</b>	2002	outstanding
	<b>HK\$'000</b>	HK\$'000	during the year
			HK\$'000
Max Joint International Limited	—	2,602	2,602
Sunford Worldwide International Ltd.	—	2,689	3,000
Sunsky International Enterprises Ltd.	—	36,466	36,663
Sunwave Holdings Limited	—	50	50
	—	41,807	

The amounts due from related companies were unsecured, interest free and fully settled during the year ended 31 December 2002.

Mr. Wong Shu Wing and Mr. Kwan Kim Fai, Stanley, directors and beneficial owners of the Company, have beneficial interests in all of the above companies.

## 21. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within 30 days	<b>25,476</b>	20,412
Between 31 to 60 days	<b>18,889</b>	17,104
Over 60 days	<b>10,623</b>	6,567
	<b>54,988</b>	44,083
Other creditors and accrued charges	<b>22,620</b>	22,266
	<b>77,608</b>	66,349

Included in other creditors and accrued charges are other borrowings which were interest bearing of HK\$13,535,000 as at 31 December 2002 (2001: HK\$5,996,000).

## 22. OBLIGATIONS UNDER A FINANCE LEASE

	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Within one year	<b>17</b>	—	<b>11</b>	—
More than one year, but not exceeding two years	<b>17</b>	—	<b>13</b>	—
More than two years, but not exceeding five years	<b>37</b>	—	<b>33</b>	—
	<b>71</b>	—	<b>57</b>	—
Less: future finance charges	<b>(14)</b>	—	<b>—</b>	—
Present value of lease obligations	<b>57</b>	—	<b>57</b>	—
Less: Amount due within one year shown under current liabilities			<b>(11)</b>	—
			<b>46</b>	—

## Notes to the Financial Statements

for the year ended 31 December 2002

**22. OBLIGATIONS UNDER A FINANCE LEASE (continued)**

The lease term of the plant and equipment under finance lease is 5 years. For year ended 31 December 2002, the effective borrowing rate was 10%. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

**23. SHORT TERM BORROWINGS**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Bank overdrafts	—	2
Bank loans	<b>2,871</b>	—
	<b>2,871</b>	2
Secured	—	2
Unsecured	<b>2,871</b>	—
	<b>2,871</b>	2

**24. DEFERRED TAXATION**

At the balance sheet dates, deferred taxation provided represents the tax effect on timing difference of excess of tax allowance over depreciation.

At the balance sheet, the Group has a net deferred tax asset which has not been recognised in the financial statements as it is not certain that these timing differences will be crystallised in the foreseeable future. The details of the unprovided deferred tax assets are as follow:

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Tax effect of timing differences because of:		
Tax losses	<b>350</b>	—
Excess of depreciation over tax allowances	<b>27</b>	155
	<b>377</b>	155

**24. DEFERRED TAXATION (continued)**

The amount of unprovided deferred tax credit (charge) for the year is as follows:

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Tax effect of timing differences because of:		
Tax losses	<b>350</b>	—
Excess of depreciation over tax allowances	<b>(128)</b>	73
	<b>222</b>	73

**25. SHARE CAPITAL**

	<b>Number</b>	<b>Amount</b>
	<b>of shares</b>	HK\$'000
Details of the share capital of the Company are as follows:		
Ordinary shares of HK\$0.1 each:		
Authorised		
On incorporation	3,800,000	380
Increase during the period	996,200,000	99,620
At 31 December 2002	1,000,000,000	100,000
Issued and fully paid:		
Allotted and issued nil paid on incorporation	1	—
Allotted and issued nil paid on 2 December 2002	99	—
Issue of shares upon the Group Reorganisation	999,900	100
At 31 December 2002	1,000,000	100

**25. SHARE CAPITAL (continued)**

The following changes in the share capital of the Company took place during the period from 5 July 2002 (date of incorporation) to 31 December 2002:

- (a) The Company was incorporated on 5 July 2002 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each. At the time of incorporation, 1 ordinary share of HK\$0.1 each was allotted and issued nil paid. On 2 December 2002, the Company allotted and issued 99 ordinary shares of HK\$0.1 each nil paid.
- (b) Pursuant to written resolutions of the shareholders of the Company passed on 20 December 2002:
  - (i) the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 996,200,000 new ordinary shares of HK\$0.1 each. The new shares rank pari passu in all respects with the existing shares;
  - (ii) as consideration for the acquisition of the entire issued share capital of Sunlink Technologies Holdings Limited and its subsidiaries, the Company has issued an aggregate of 999,900 ordinary shares, credited as fully paid under the Group Reorganisation which took place on 20 December 2002. The difference between the deemed consideration and the aggregate par value of the shares issued has been credited to share premium account; and
  - (iii) an amount of HK\$100,000 credited to the share premium of the Company arising from the issue of 999,900 shares in acquisition of the entire issued share capital of Sunlink Technologies Holdings Limited and its subsidiaries above was applied in paying full at par value the 1 ordinary share and 99 ordinary shares, which were allotted and issued nil paid on the date of incorporation and 2 December 2002 respectively.

The share capital of 31 December 2001 as shown in the consolidated balance sheet represented the aggregate amount of the nominal value of the share capital and share premium of the subsidiaries, acquired by the Company pursuant to the Group Reorganisation.

Changes in the Company's share capital subsequent to 31 December 2002 are set out in note 32.

**26. RESERVES**

	<b>Share premium</b>	<b>Retained profit</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
<b>The Company</b>			
Premium arising on Group Reorganisation	69,560	—	69,560
Capitalisation arising on Group Reorganisation	(100)	—	(100)
Profit for the period	—	10,150	10,150
Interim dividends	—	(10,000)	(10,000)
At 31 December 2002	69,460	150	69,610

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$69,610,000.

**27. MAJOR NON-CASH TRANSACTIONS**

During the year ended 31 December 2002, the Group entered into the following major non-cash transactions:

- (a) the Group purchased investment properties and leasehold land and buildings amounting to HK\$1,800,000 and HK\$6,200,000 respectively from related companies, the consideration was settled through the current account with the related companies; and
- (b) the Group entered into finance lease arrangements in respect of property, plant and equipment with a capital value at the inception of the lease of HK\$78,000.

## Notes to the Financial Statements

for the year ended 31 December 2002

**28. PLEDGE OF ASSETS**

The Group had pledged the following assets to secure general banking facilities at the balance sheet date:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Bank deposits	<b>18,008</b>	5,118
Investment in securities	<b>2,964</b>	1,014
Investment properties	<b>1,814</b>	—
Leasehold land and buildings	<b>6,246</b>	—
	<b>29,032</b>	6,132

**29. OPERATING LEASE ARRANGEMENTS**

The Group as lessee

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	<b>592</b>	520
In the second to fifth year inclusive	<b>225</b>	49
	<b>817</b>	569

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are fixed and negotiated for an average term of two years.

At 31 December 2002, the Company had no commitments under operating leases (2001: nil).



**29. OPERATING LEASE ARRANGEMENTS (continued)**

The Group as lessor

At the balance sheet date, the Group had contracted with a tenant for the following future minimum lease payments under a non-cancellable operating lease in respect of rented premises which fall due as follows:

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>53</b>	—

Lease is fixed and negotiated for a term of 14 months.

**30. EMPLOYEE RETIREMENT BENEFITS**

The Group operates a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held under funds managed by independent trustees. Prior to 1 December 2002, the Group and its employees participating in the scheme were each required to make contributions to the scheme calculated at 5 per cent. of individual employee's basic monthly salaries. The Group's contribution made to employees who have left the Group's employment prior to being vested fully with such contributions were forfeited. Contributions from the Group and its employee were frozen with the adoption of Mandatory Provident Fund Scheme ("MPF Scheme").

With effective from 1 December, 2000, the operating subsidiaries in Hong Kong joined the MPF for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The PRC employees of subsidiary registered in the PRC are members of the pension scheme operated by the PRC local government. The PRC subsidiary is required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Group with respect of the pension scheme is the required contributions under the pension scheme.

The total cost charged to income statement of HK\$512,000 (2001: HK\$674,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

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**31. RELATED PARTY TRANSACTIONS**

- (a) Apart from the current accounts with related companies as stated in note 20 above, the Group had the following transactions, which were conducted in the ordinary course of the Group's business, with its related parties during the year:

Name	Note	Nature of transactions	2002 HK\$'000	2001 HK\$'000
Brookwealth Limited	(i)	Rental paid to	<b>30</b>	59
Brookwealth Limited	(i)	Management fee paid to	—	2
Brookwealth Limited	(ii)	Purchase of investment properties	<b>1,800</b>	—
Kwan Kim Fai, Stanley	(ii)	Purchase of plant and equipment	—	8
Sun Billion Finance Limited	(i)	Consultancy fee paid to	—	73
Sun Billion Finance Limited	(i)	Management fee paid to	—	37
Sytech Technologies Company Limited	(iv)	Sales of goods to	—	973
Sytech Technologies Company Limited	(iii)	Interest income received from	—	139
Sytech Technologies Company Limited	(v)	Interest paid to	—	3
Sytech Technologies Company Limited	(i)	Administration fee paid to	—	1,305
Team Bright International Limited	(i)	Rental paid to	<b>165</b>	426
Team Bright International Limited	(ii)	Purchases of land and buildings	<b>3,000</b>	—
Tech-Link Communication Limited	(i)	Management fee paid to	—	3
Topwide International Trading Company Limited	(i)	Rental paid to	<b>75</b>	180
Topwide International Trading Company Limited	(ii)	Purchases of land and buildings	<b>3,200</b>	—

Notes:

- (i) Other income and expenses are determined on basis as agreed between the parties involved.
- (ii) The consideration for the purchases of investment properties and land and buildings were determined with reference to professional valuation.

### 31. RELATED PARTY TRANSACTIONS (continued)

- (iii) Interest income received are based on 6% per annum on principal outstanding.
- (iv) Sales and purchases of goods were carried out at market price.
- (v) Interest paid are based on 6% per annum on principal outstanding.

These related party transactions have been ceased during the year ended 31 December 2002 and would be discontinued thereafter.

Mr. Wong Shu Wing and Mr. Kwan Kim Fai, Stanley, directors and beneficial owners of the Company, have beneficial interests in Brookwealth Limited, Team Bright International Limited, Tech-Link Communication Limited and Topwide International Trading Company Limited. In addition, Mr. Wong Shu Wing has beneficial interests in Sun Billion Finance Limited.

Mr. Wong Shu Wing and Mr. Kwan Kim Fai, Stanley, had beneficial interests in Sytech Technologies Company Limited up to 15 May 2001 and had disposed of their interests to a third party. Accordingly, Sytech Technologies Company Limited ceased to be a related company thereafter.

- (b) During the year ended 31 December 2002, the Group acquired additional interest in certain subsidiaries, namely, Apson Electronic Products Limited, Hoover Technologies Limited, Sunwave Computers Limited, Sunwave Development Limited and Sytech Electronics Limited from Mr. Wong Shu Wing, a director and one of the beneficial owners of the Company, Mr. Tsing Kwok Lun, Allan and Mr. Choi Tak Kai, directors of the Company, at a total consideration of HK\$6,024,000. The consideration was determined with reference to the attributable net assets value of respective subsidiaries shown in the latest available unaudited management accounts of the subsidiaries at the time of the acquisition.
- (c) Certain directors provided unlimited personal guarantees to banks as part of the security to secure for banking facilities granted to the Group at nil consideration during the year.
- (d) Certain related companies in which certain directors have beneficial interests pledged their properties to banks as part of the security to secure for banking facilities granted to the Group during the prior year. During the year ended 31 December 2002, the Group acquired certain of these properties from the above related companies. These security ceased to be provided by the above related companies thereafter.

## Notes to the Financial Statements

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**32. POST BALANCE SHEET EVENT**

The following significant events took place subsequent to the balance sheet date:

- (a) Pursuant to a resolution in writing by the shareholders at that time of the Company on 12 February 2003, the new issue and placing of 100,000,000 shares of the Company of HK\$0.1 each, representing 60,000,000 new ordinary shares and 40,000,000 sale shares, at a price of HK\$0.5 per share, was approved and the directors were authorised to allot and issue the new shares in connection with the new issue and placing. Net proceeds of approximately HK\$22,000,000 were received by the Company.
- (b) A share option scheme was adopted at a special general meeting of the Company held on 12 February 2003 pursuant to which the board of directors of the Company may, at their discretion, grant options to employees, including executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10 per cent. of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 30 per cent. of the maximum number of shares in respect of which options may be granted under the share option scheme.

**33. SUBSIDIARIES**

Particulars of the Company's subsidiaries at 31 December 2002 were as follows:

<b>Name of company</b>	<b>Place and date of incorporation/ registration</b>	<b>Forms of legal entity</b>	<b>Issued and fully paid share capital/ registered capital</b>	<b>Attributable equity interest held by the Group</b>	<b>Principal activities</b>
Apson Electronic Products Limited	Hong Kong 7th August 1990	Limited liability company	Ordinary shares HK\$200,000	99%	Manufacturing and trading of computer components
Hoover Technologies Limited	Hong Kong 19th November 1992	Limited liability company	Ordinary shares HK\$1,020,000	99%	Trading of electronic products
Kingful Investment Limited	Hong Kong 26th April 2002	Limited liability company	Ordinary shares HK\$10,000	100%	Property holding

**33. SUBSIDIARIES (continued)**

<b>Name of company</b>	<b>Place and date of incorporation/ registration</b>	<b>Forms of legal entity</b>	<b>Issued and fully paid share capital/ registered capital</b>	<b>Attributable equity interest held by the Group</b>	<b>Principal activities</b>
Ocean King Investment Limited	British Virgin Islands 18th March 2002	Limited liability company	Ordinary share US\$1	100%	Investment holding
Rawason Development Limited	British Virgin Islands 23rd February 2000	Limited liability company	Ordinary shares US\$1	100%	Provision of technology solutions and investment holding
Sunlink Asia Pacific Limited	British Virgin Islands 27th May 2002	Limited liability company	Ordinary shares US\$1	100%	Investment holding
Sunlink Technologies Holdings Limited	British Virgin Islands 27th May 2002	Limited liability company	Ordinary shares US\$100	100%	Investment holding
Sunlink Technologies Limited	British Virgin Islands 27th May 2002	Limited liability company	Ordinary shares US\$1	100%	Investment holding
Sun Horse Technologies (H.K.) Limited	Hong Kong 25th July 2001	Limited liability company	Ordinary shares HK\$2	100%	Trading of electronic parts
Sunwave Computers Limited	Hong Kong 20th August 1991	Limited liability company	Ordinary shares HK\$1,170,000	92%	Trading of computer components
Sunwave Development Limited	Hong Kong 18th September 1997	Limited liability company	Ordinary shares HK\$1,100,000	99%	Trading of electronic parts
Systech Electronics Limited	Hong Kong 11th January 1999	Limited liability company	Ordinary shares HK\$1,000,000	100%	Trading of electronic parts
Tech-Link T & E Limited	Hong Kong 28th December 2000	Limited liability company	Ordinary shares HK\$500,000	100%	Trading of electronic parts
駿泰陽軟件科技(深圳)有限公司 Jun Tai Yang Software Technologies (Shenzhen) Limited	People's Republic of China ("PRC") 7th August 2000	Foreign owned enterprise	Registered capital HK\$1,000,000	100%	Provision of technology solutions

Note:

- (a) The Company directly holds the entire interest in Sunlink Technologies Holdings Limited. The interests of all other companies are indirectly held by the Company.

None of the subsidiaries had any loan capital outstanding at 31 December 2002 or at any time during the year.