

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 14 to the financial statements.

2. ADOPTION OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAP")

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants for the first time. 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, under which 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 amounts 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 this standard has had no material effect on the results for the prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of leasehold land and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

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 are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

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

Revenue recognition

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

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

Dividend income from investments is recognised when the shareholder's rights to receive payment has been established.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost or valuation 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 and buildings	The shorter of the lease terms and 50 years
Leasehold improvements, furniture, office equipment and motor vehicles	20%
Plant and machinery	10%

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

Construction in progress, which represents buildings under construction, is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period 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 accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

All other leases are classified as operating leases and the rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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 to 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.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 those employees who are eligible to participate in the MPF Scheme. 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 into the MPF Scheme.

The employees of the Group's subsidiaries operating in Fujian Province, the People's Republic of China (the "PRC") are required to participate in a central pension scheme (the "Central Scheme") operated by the local municipal government in Fujian Province, the PRC. The local municipal government in Fujian Province, the PRC, undertakes to assume the retirement benefits obligations of all existing and future retired staff of these subsidiaries. The only obligation of these subsidiaries with respect to the Central Scheme is to meet the required contributions under the Central Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the Central Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which have lapsed, are deleted from the register of outstanding options and have no impact on the income statement or balance sheet.

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. All significant intra-group transactions have been eliminated on consolidation.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by geographical segment; and
- (ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the manufacture and sale of electronic products, which is managed according to the geographical location of customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments. The Group's geographical segments are as follows:

- (a) Hong Kong;
- (b) India;
- (c) Elsewhere in Asia; and
- (d) Africa, Western Europe, the Middle East, North and South America, and Russia.

In determining the Group's geographical segments, revenues and assets are attributed to the segments based on the location of the customers.

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Year ended 31 December 2003

5. SEGMENT INFORMATION (continued)

(a) Geographical segments based on the location of customers

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

Group

	Hong Kong		India		Elsewhere in Asia		Africa, Western Europe, the Middle East, North and South America, and Russia		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>20,859</u>	9,218	<u>101,566</u>	135,137	<u>119,591</u>	146,751	<u>179,701</u>	211,687	<u>421,717</u>	502,793
Segment results	<u>3,173</u>	1,993	<u>13,018</u>	20,258	<u>17,818</u>	21,097	<u>27,803</u>	33,756	<u>61,812</u>	77,104
Unallocated revenue									<u>2,311</u>	2,894
Unallocated expenses									<u>(2,831)</u>	(3,667)
Profit from operations									<u>61,292</u>	76,331
Finance costs									<u>(84)</u>	(1,102)
Profit before taxation									<u>61,208</u>	75,229
Taxation									<u>(4,312)</u>	(12,866)
Net profit attributable to shareholders									<u>56,896</u>	62,363

NOTES TO FINANCIAL STATEMENTS

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5. SEGMENT INFORMATION (continued)

(a) Geographical segments based on the location of customers (continued)

Group

	Hong Kong		India		Elsewhere in Asia		Africa, Western Europe, the Middle East, North and South America, and Russia		Unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	12,848	3,920	79,298	57,459	81,055	62,397	126,774	90,007	-	-	299,975	213,783
Unallocated assets	-	-	-	-	-	-	-	-	96,109	107,310	96,109	107,310
Total assets	12,848	3,920	79,298	57,459	81,055	62,397	126,774	90,007	96,109	107,310	396,084	321,093
Segment liabilities	5,531	1,250	26,930	18,331	31,709	19,906	47,647	28,714	-	-	111,817	68,201
Unallocated liabilities	-	-	-	-	-	-	-	-	41,313	56,690	41,313	56,690
Total liabilities	5,531	1,250	26,930	18,331	31,709	19,906	47,647	28,714	41,313	56,690	153,130	124,891
Other segment information:												
Depreciation	439	126	2,138	1,848	2,517	2,006	3,783	2,894	-	-	8,877	6,874
Unallocated depreciation	-	-	-	-	-	-	-	-	56	133	56	133
	439	126	2,138	1,848	2,517	2,006	3,783	2,894	56	133	8,933	7,007
Capital expenditure	3,123	525	15,204	7,695	17,903	8,355	26,901	12,052	-	-	63,131	28,627

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Year ended 31 December 2003

5. SEGMENT INFORMATION (continued)

(b) Geographical segments based on the location of assets

	Hong Kong		Macau		Elsewhere in the PRC		Unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	5,892	3,922	59,776	36,675	234,307	173,186	-	-	299,975	213,783
Unallocated assets	-	-	-	-	-	-	96,109	107,310	96,109	107,310
	5,892	3,922	59,776	36,675	234,307	173,186	96,109	107,310	396,084	321,093
Capital expenditure	82	379	4	-	63,045	28,248	-	-	63,131	28,627

(c) Business segments

Over 90% of the Group's revenue and assets are attributable to the manufacture and sale of electronic products.

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold	326,129	388,939
Depreciation of property, plant and equipment	8,933	7,007
Minimum lease payments under operating leases on leasehold land and buildings	447	363
Auditors' remuneration	511	850
Staff costs (excluding directors' remuneration – note 7)		
Wages and salaries	51,641	41,463
Retirement benefits scheme contributions	4,130	6,134
Loss on disposal of property, plant and equipment	5,721	693
(Surplus)/deficit on revaluation of leasehold land and buildings	(56)	593
Interest income	(791)	(1,175)

NOTES TO FINANCIAL STATEMENTS

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7. DIRECTORS' REMUNERATION

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees	-	-
Other emoluments:		
Salaries and other benefits	3,288	3,004
Retirement benefits scheme contributions	60	60
	3,348	3,064
	3,348	3,064

There were no fees and other emoluments payable to the independent non-executive directors during the year (2002: Nil).

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	7	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: four) directors, details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration of remaining one (2002: one) non-director, highest paid employee are as follows:

	2003 HK\$'000	Group 2002 HK\$'000
Salaries and other benefits	311	324
Retirement benefits scheme contributions	12	12
	323	336

The number of the non-director, highest paid employee whose remuneration fell within the following band is as follows:

	2003	2002
Nil to HK\$1,000,000	1	1

9. FINANCE COSTS

	2003 HK\$'000	Group 2002 HK\$'000
Interest on bank loans	45	1,063
Interest on finance leases	39	39
	84	1,102

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10. TAXATION

	2003 HK\$'000	Group 2002 HK\$'000
Current taxation:		
Hong Kong	293	25
Other jurisdictions	4,019	12,841
	4,312	12,866

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits arising in Hong Kong for the year. The Profits Tax rate has been increased with effect from the 2003 year of assessment.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2002: Nil).

The taxation charge for the year reconciled to the profit per the income statement is as follows:

	2003 HK\$'000	Group 2002 HK\$'000
Profit before taxation	61,208	75,229
Tax at the domestic income tax rate of 17.5% (2002: 16%)	10,711	12,037
Tax effect of expenses that are not deductible in determining taxable profit	1,584	364
Tax effect of income that is not taxable in determining taxable profit	(7,373)	(2,448)
Tax effect of tax losses not recognised	104	7
Effect of different tax rates of subsidiaries operating in other jurisdictions	(714)	2,906
Taxation for the year	4,312	12,866

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11. DIVIDEND

	2003	Group
	HK\$'000	2002 HK\$'000
Proposed final dividend – HK1.2 cents (2002: HK0.8 cents) per share	17,280	11,520

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the year of HK\$56,896,000 (2002: HK\$62,363,000) and the weighted average of 1,440,004,800 (2002: 1,440,002,590) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the Group's net profit attributable to shareholders of HK\$56,896,000 and the weighted average number of 1,442,508,808 ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 1,440,004,800 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 2,504,008 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

Diluted earnings per share for the year ended 31 December 2002 has not been presented as the warrants and share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 January 2003	29,550	14,527	69,811	6,384	120,272
Additions	1,807	36,419	20,948	3,957	63,131
Transfer	47,998	(48,052)	54	–	–
Disposals	–	–	(9,265)	(2,033)	(11,298)
Revaluation	695	–	–	–	695
At 31 December 2003	<u>80,050</u>	<u>2,894</u>	<u>81,548</u>	<u>8,308</u>	<u>172,800</u>
Analysis of cost or valuation:					
At cost	–	2,894	81,548	8,308	92,750
At valuation	<u>80,050</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>80,050</u>
	<u>80,050</u>	<u>2,894</u>	<u>81,548</u>	<u>8,308</u>	<u>172,800</u>
Depreciation:					
At 1 January 2003	–	–	15,101	2,231	17,332
Provided for the year	737	–	6,972	1,224	8,933
Eliminated on disposals	–	–	(4,316)	(1,261)	(5,577)
Eliminated on revaluation	(737)	–	–	–	(737)
At 31 December 2003	<u>–</u>	<u>–</u>	<u>17,757</u>	<u>2,194</u>	<u>19,951</u>
Net book value:					
At 31 December 2003	<u>80,050</u>	<u>2,894</u>	<u>63,791</u>	<u>6,114</u>	<u>152,849</u>
At 31 December 2002	<u>29,550</u>	<u>14,527</u>	<u>54,710</u>	<u>4,153</u>	<u>102,940</u>

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings included above are held under the following lease terms:

	2003 HK\$'000	2002 HK\$'000
Medium term leases in Hong Kong	2,050	2,050
Medium term leases elsewhere in the PRC	78,000	27,500
	80,050	29,550

At 31 December 2003, the Group's leasehold land and buildings in Hong Kong were revalued on an open market value, existing use basis, by DTZ Debenham Tie Leung Limited ("DTZ"), an independent firm of professional valuers, at HK\$2,050,000. The resulting revaluation surplus of approximately HK\$56,000 (2002: deficit of HK\$593,000) had been credited to the income statement.

At 31 December 2003, the Group's leasehold land and buildings in the PRC except Hong Kong were revalued on a depreciated replacement cost basis by DTZ, at HK\$78,000,000. The resulting revaluation surplus of approximately HK\$1,376,000 (2002: deficit of HK\$329,000) had been credited to the property revaluation reserve.

Had the Group's leasehold land and buildings in Hong Kong and elsewhere in the PRC been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$2,897,000 (2002: HK\$2,960,000) and HK\$76,624,000 (2002: HK\$26,424,000), respectively.

At 31 December 2003, the carrying amount of the Group's construction in progress included capitalised interest of approximately HK\$354,000 (2002: HK\$354,000).

At 31 December 2003, the Group's leasehold land and buildings in the PRC except Hong Kong with net book value of approximately HK\$42,640,000 (2002: HK\$27,500,000) were pledged to secure banking facilities granted to the Group (note 20).

The net book value of the Group's motor vehicle held under a finance lease included in the total amount of leasehold improvements, furniture, office equipment and motor vehicles as at 31 December 2003 amounted to approximately HK\$588,000 (2002: HK\$816,000).

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14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	<u>81,159</u>	<u>81,159</u>

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
E-Today Technology Limited ("E-Today")	BVI	Ordinary US\$600	100	–	Investment holding
Deji Electronic Co., Ltd. Putian County, Fujian ("Deji Electronic") (Note 1)	PRC except Hong Kong	HK\$6,000,000	–	100	Manufacture and sale of electronic products
Putian Dexing Electronic Co., Ltd. ("Putian Dexing") (Note 2)	PRC except Hong Kong	HK\$47,944,209	–	100	Manufacture and sale of electronic products
Putian Derong Electronic Co., Ltd. ("Putian Derong") (Note 3)	PRC except Hong Kong	HK\$18,000,000	–	100	Inactive
Zhejiang Yiwu Dexing Electronic Co., Ltd. ("Zhejiang Yiwu") (Note 4)	PRC except Hong Kong	–	–	100	Inactive
Tak Shun (Lam's) Company Limited ("Tak Shun Lam")	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000 (Note 5)	–	100	Investment holding and distribution of electronic products

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14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tak Shun (Lam's) Commercial Offshore Limited	Macao	MOP500,000	–	100	Distribution of electronic products

Note 1: Deji Electronic is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 20 years commencing from its date of establishment on 27 April 1992. The registered capital of Deji Electronic amounted to HK\$10,200,000, of which HK\$6,000,000 was paid up by the Group as at 31 December 2003.

Note 2: Putian Dexing is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 50 years commencing from its date of establishment on 18 May 1998. The registered capital of Putian Dexing amounted to HK\$206,480,000, of which HK\$47,944,209 was paid up by the Group as at 31 December 2003.

Note 3: Putian Derong is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 50 years commencing from its date of establishment on 29 April 2001. The registered capital of Putian Derong amounted to HK\$60,000,000, of which HK\$18,000,000 was paid up by the Group as at 31 December 2003.

Note 4: Zhejiang Yiwu is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 30 years commencing from its date of establishment on 28 November 2003. The registered capital of Zhejiang Yiwu amounted to US\$6,600,000 (equivalent to HK\$51,480,000), of which US\$1,250,000 (equivalent to HK\$9,750,000) was paid up by the Group but the capital verification had not yet been completed as at 31 December 2003.

Note 5: The non-voting deferred shares carry no rights as to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus in a return of capital in a winding-up (other than the nominal amount paid up or credited as paid-up of the non-voting deferred shares, after a sum of HK\$1,000,000,000 per ordinary share has been distributed to the holders of the ordinary shares of Tak Shun Lam in such winding-up).

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.

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15. INVENTORIES

	2003 HK\$'000	Group 2002 HK\$'000
Raw materials	32,044	24,010
Work in progress	10,473	11,189
Finished goods	24,181	34,616
	66,698	69,815

No inventories were stated at net realisable value as at 31 December 2003 (2002:Nil).

16. TRADE RECEIVABLES

The Group normally allows credit terms ranging from 30 to 90 days to its customers.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	2003 HK\$'000	Group 2002 HK\$'000
1 – 30 days	38,356	20,752
31 – 60 days	19,342	12,055
61 – 90 days	6,379	8,189
Over 90 days	2,459	–
	66,536	40,996

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Year ended 31 December 2003

17. TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	2003 HK\$'000	Group 2002 HK\$'000
1 – 30 days	22,848	12,030
31 – 60 days	14,062	15,438
61 – 90 days	8,998	12,870
91 – 180 days	36,368	9,463
	82,276	49,801

18. INTEREST-BEARING BANK LOANS

	2003 HK\$'000	Group 2002 HK\$'000
Bank loans, secured and repayable within one year	-	18,692

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19 OBLIGATION UNDER FINANCE LEASE

The Group leases a motor vehicle for its general business purposes. The lease is classified as a finance lease and has a remaining lease term of two years.

At 31 December 2003, the total future minimum lease payments under the finance lease and their present values, were as follows:

	Group		Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2003 HK\$'000		
Amounts payable:				
Within one year	301	276	301	285
In the second year	201	161	301	257
In the third to fifth years, inclusive	-	-	201	158
	502	437	803	700
Future finance charges	(65)		(103)	
Present value of lease obligation	437		700	
Portion classified as current liabilities	(276)		(285)	
Non-current portion	161		415	

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

20. BANKING FACILITIES

At 31 December 2003, the Group's banking facilities were secured by the following:

- (i) pledge of the Group's leasehold land and buildings in the PRC except Hong Kong (note 13); and
- (ii) corporate guarantees given by the Company and certain subsidiaries of the Company.

21. SHARE CAPITAL

Shares

	Number of shares		Share capital	
	2003	2002	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At 31 December	4,000,000,000	4,000,000,000	40,000	40,000
Issued and fully paid:				
At 1 January	1,440,004,800	480,000,000	14,400	4,800
Bonus issue of shares (note a)	-	960,000,000	-	9,600
Warrants exercised (note b)	-	4,800	-	-
At 31 December	1,440,004,800	1,440,004,800	14,400	14,400

Note a. Pursuant to an ordinary resolution passed at the general meeting of the Company held on 8 May 2002, an aggregate of 960,000,000 new ordinary shares of HK\$0.01 each of the Company were issued as fully paid bonus shares by capitalising the sum of HK\$9,600,000 from the amounts standing to the credit of the Company's share premium account, on the basis of two bonus shares for every one ordinary share held by the shareholders whose names appear on the register of members of the Company on that date. The new ordinary shares rank pari passu in all respects with the existing issued share capital of the Company.

Note b. During the year ended 31 December 2002, 4,800 ordinary shares of HK\$0.01 each of the Company were issued for cash at a subscription price of HK\$0.40 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$1,920.

21. SHARE CAPITAL (continued)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 22 to the financial statements.

22. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Option Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity providing research, development or other technological support to the Group, and any other person or entity determined by the directors as having contributed or may contribute to the development and growth of the Group. The Option Scheme became effective on 18 September 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2003, the number of shares issuable under the share options granted under the Option Scheme was approximately 144,000,000, which represented 10% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

22. SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

The following share options were outstanding under the Option Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options *	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares ***	
	At 1 January 2003	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2003				At grant date of options HK\$	At exercise date of options HK\$
Directors										
Mr. Law Wai Fai	14,000,000	-	-	-	14,000,000	28 November 2002	18 December 2002 to 17 December 2005	0.348	0.34	-
Ms. Lam Chu Ying	8,000,000	-	-	-	8,000,000	28 November 2002	18 December 2002 to 17 December 2005	0.348	0.34	-
Mr. Yeung Kwong Lun	4,000,000	-	-	-	4,000,000	28 November 2002	18 December 2002 to 17 December 2005	0.348	0.34	-
	<u>26,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,000,000</u>					
Other employees										
In aggregate	21,720,000	-	-	(6,140,000)	15,580,000	28 November 2002	18 December 2002 to 17 December 2005	0.348	0.34	-
	<u>47,720,000</u>	<u>-</u>	<u>-</u>	<u>(6,140,000)</u>	<u>41,580,000</u>					

22. SHARE OPTION SCHEME (continued)

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share option is subject to adjustment in the case of a capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

At 31 December 2003, the Company had 41,580,000 share options outstanding under the Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 41,580,000 additional ordinary shares of HK\$0.01 each of the Company and additional share capital of approximately HK\$416,000 and share premium of approximately HK\$14,054,000 (before share issue expenses).

23. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2003 and 2002 are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the reorganization scheme to rationalize the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange (the "Group Reorganisation"), over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium utilised as a result of the capitalisation issue and bonus issue of shares of the Company; and (iii) the premium arising from the new issue of shares of the Company.

The PRC subsidiaries are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory reserve fund until such reserve reaches 50% of the registered capital of the respective subsidiaries, upon which any further appropriation will be at the recommendation of the directors of the subsidiaries. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

23. RESERVES (continued)

Company

		Share premium account	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002		123,263	663	123,926
Bonus issue of shares	22	(9,600)	–	(9,600)
Warrants exercised	22	2	–	2
Net profit for the year		–	14,378	14,378
Proposed final dividend	11	–	(11,520)	(11,520)
At 31 December 2002 and 1 January 2003		113,665	3,521	117,186
Net profit for the year		–	14,926	14,926
Proposed final dividend	11	–	(17,280)	(17,280)
At 31 December 2003		<u>113,665</u>	<u>1,167</u>	<u>114,832</u>

The share premium account of the Company represents: (i) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium utilised as a result of the capitalisation issue and bonus issue of shares of the Company; and (iii) the premium arising from the new issue of shares of the Company.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

24. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

At 31 December 2003, the Company had provided corporate guarantees to the extent of HK\$84.5 million (2002: HK\$29.5 million) to banks for banking facilities provided to certain subsidiaries. These banking facilities had not been utilised as at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2003

25. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings ranged from one to two years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003 HK\$'000	Group 2002 HK\$'000
Within one year	280	332
In the second to fifth years, inclusive	331	24
	611	356

The Company did not have any operating lease arrangements as at 31 December 2003 (2002: Nil).

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26. COMMITMENTS

- (a) In addition to the operating lease commitments detailed in note 25 above, the Group had the following commitments in respect of its property, plant and equipment as at the balance sheet date:

	2003 HK\$'000	Group 2002 HK\$'000
Contracted, but not provided for:		
Leasehold land and buildings	1,852	20,473
Plant and machinery	2,494	–
	4,346	20,473

- (b) At 31 December 2003, the Group had contracted commitments in respect of capital investments in the PRC subsidiaries amounting to approximately HK\$256,216,000 (2002: HK\$55,267,000). The amount included US\$1,250,000 (equivalent to HK\$9,750,000) paid by the Group for investment in Zhejiang Yiwu but the capital verification had not yet been completed at 31 December 2003. Details of which were disclosed in note 14 to the financial statements.

The Company did not have any significant commitment as at 31 December 2003 (2002: Nil).