Notes to the Financial Statements

30th June 2004
(Expressed in Chinese Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong ("HKGAAP") and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associate for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of future losses is discounted except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investment in the associate is stated at cost less impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(h)).

In respect of acquisition of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(h)) is included in the carrying amount of the interests in the associates.

Negative goodwill arising on acquisition of subsidiaries and associate represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

— for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates, such negative goodwill is included in the carrying amount of the interests in associates.

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following bases:

— land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation, and subsequent cost less any subsequent accumulated depreciation (see note 1(g)) and impairment losses (see note 1(h)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date;

— construction-in-progress represents buildings under construction and machinery pending for installation. It is stated at cost, which includes construction expenditures incurred, cost of machinery, interest capitalised and other direct costs capitalised during the construction and installation period; and

— machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(h)).

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in property revaluation reserve. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to retained profits.

(g) Amortisation and depreciation

(i) No depreciation is provided on construction-in-progress until the construction work is completed.

(ii) Depreciation is calculated to write off the cost or valuation less estimated residual value of other fixed assets over their estimated useful lives as follows:

— leasehold land is depreciated on a straight-line basis over the remaining term of the lease;

— buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 25 years from the date of completion, and the remaining terms of the leases; and

— other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Machinery	10 years
Furniture and equipment	5 years
Motor vehicles	5 years

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets (other than properties carried at revalued amounts);

— investments in subsidiaries; and

— interests in associates.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. 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 assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(k) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost of the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a mandatory central pension scheme organised by the People's Republic of China ("PRC") government are recognised as an expense in the income statement as incurred.

(iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(l) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary difference arising from goodwill deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settled simultaneously.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised in the income statement as follows:

(i) *Sales of goods*

Revenue is recognised when goods are delivered and title has passed. Revenue excludes value-added tax and is stated after deduction of any trade discounts.

(ii) *Interest income*

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

(o) Research and development costs

Research costs are written off as incurred. Development costs are charged against income in the period in which they are incurred, except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Deferred development costs are amortised on a straight-line basis over the period in which the related products or processes are expected to be sold or used, starting from the commencement of sales or the utilisation of the product or process. No development costs were deferred as at 30th June 2004 and 2003.

(p) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(q) Translation of foreign currencies

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement of the individual companies.

The Group prepares consolidated financial statements in Chinese Renminbi. For the purpose of consolidation, the results of subsidiaries with functional currencies other than Chinese Renminbi are translated into Chinese Renminbi at the average exchange rates for the year; balance sheet items are translated into Chinese Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in the exchange reserve. There were no material exchange differences arising on translation during the years ended 30th June 2004 and 2003.

(r) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. CHANGES IN ACCOUNTING POLICIES

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st July 2003, in order to comply with Statement of Standard Accounting Practice 12 (Revised) "Income taxes" issued by the HKICPA, the Group adopted a new policy for deferred tax as set out in note 1(l). The adoption of this revised accounting policy had no significant effect on the results and net assets for the current and prior years. Accordingly, no prior year adjustment was made.

3. TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the provision of electronic manufacturing services and the manufacture and sale of electronic products.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of all goods returns and trade discounts.

4. OTHER REVENUE

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Interest income from banks	1,823	614
Others	37	—
	1,860	614

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

		The Group	
		2004	2003
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	4,147	2,567
	Other borrowing costs	2,896	—
	Total borrowing costs	7,043	2,567
(b)	**Staff costs**		
	Contributions to defined contribution plans	572	1,382
	Salaries, wages and other benefits	12,804	11,011
	Total staff costs	13,376	12,393
	Less: Amount included in cost of sales	(7,723)	(6,158)
	Amount included in research and development costs	(509)	(496)
		5,144	5,739
(c)	**Other items**		
	Cost of inventories	164,906	124,117
	Amortisation of positive goodwill included in share of profits less losses of associates	4,537	3,403
	Depreciation of fixed assets	10,338	9,139
	Deficit on revaluation of land and buildings	—	752
	Operating lease rentals for premises	1,337	1,419
	Research and development costs	576	542
	Auditors' remuneration	594	530
	Provision/(write-back of provision) for bad and doubtful debts	5,800	(2,460)
	Bad debts written off	162	2,363
	Write-off of long outstanding creditors	(103)	(204)
	Loss on disposal of fixed assets	92	—
	Net exchange loss/(gain)	265	(583)

6. TAXATION

(a) Taxation in the consolidated income statement represents:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Provision for PRC enterprise income tax (see note (iii) below)	14,700	7,707
Less: PRC enterprise income tax refund (see note (iv) below)	—	(3,899)
	14,700	3,808
Share of associates' taxation	49	66
	14,749	3,874

Notes:

(i) *Overseas income tax*

The Company is incorporated in the Cayman Islands and is exempt from taxation in the Cayman Islands until 2019. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

(ii) *Hong Kong profits tax*

No provision for Hong Kong profits tax has been made as the Group did not derive any income subject to Hong Kong profits tax during both years.

(iii) *PRC enterprise income tax*

Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fujian Fuqiang"), a subsidiary, is a sino-foreign equity joint venture established in Fuqing, PRC, and is subject to PRC enterprise income tax at a preferential rate of 15% on its profit after offsetting prior year's tax losses. However, it is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50% reduction for the following three years. Fujian Fuqiang was chargeable to PRC enterprise income tax at a rate of 7.5% and 15% for the period ended from 1st January 2003 to 31st December 2003 and from 1st January 2004 to 30th June 2004, respectively.

Gemini Electronics (Huizhou) Co., Ltd. ("Gemini Electronics"), a subsidiary, is a wholly foreign owned enterprise established in Huizhou, PRC, and is subject to PRC enterprise income tax at a preferential rate of 30% on its profit after offsetting prior year's tax losses. However, it is exempted from PRC enterprise income tax for two years tax losses, followed by a 50% reduction for the following three years. For the year ended 30th June 2004, no provision for PRC enterprise income tax has been made in the financial statements of Gemini Electronics as it substained loss for taxation purposes.

(iv) On 12th June 2001, the PRC Tax Bureau issued a tax assessment to Fujian Fuqiang for a total amount of PRC enterprise income tax payable of approximately RMB3,899,000 relating to the profit for the period from 1st January 2000 to 31st December 2000. However, according to the records of Fujian Fuqiang, such period should be exempted because Fujian Fuqiang was entitled to a tax-free period up to 31st December 2000. Accordingly, the directors of Fujian Fuqiang objected to this assessment. However, for sake of prudence, the directors of Fujian Fuqiang paid and recorded the amount of approximately RMB3,899,000 as tax expense for the year ended 30th June 2001. In November 2002, the PRC Tax Bureau agreed to the objection and the overpaid tax was refunded in June 2003.

(v) *PRC value-added tax*

Fujian Fuqiang is subject to PRC value-added tax ("VAT") at 17% of the revenue from sales of goods. Input VAT paid on purchase can be used to offset the output VAT levied on the revenue from sales of goods to determine the net VAT payable.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004		2003	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	103,403		87,033	
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	15,632	15.1	15,190	17.5
Tax effect of non-deductible expenses	927	0.9	1,688	1.9
Tax effect of HKGAAP adjustment	870	0.8	—	—
Tax effect of non-taxable revenue	(847)	(0.8)	(3,019)	(3.5)
Tax effect of unused tax losses not recognised	1,740	1.7	1,225	1.4
Tax effect of reduced tax rates	(3,937)	(3.8)	(7,637)	(8.8)
Others	364	0.4	(3,573)	(4.1)
Actual tax expenses	14,749	14.3	3,874	4.4

(c) Deferred taxation

No provision for deferred taxation for both years has been made as the Group does not have any material deductible or taxable temporary differences.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Fees	21	—
Salaries and other emoluments	2,530	2,602
Retirement scheme contributions	29	95
	2,580	2,697

Included in the directors' remuneration were fees of RMB10,600 (2003: RMB Nil), RMB10,600 (2003: RMB Nil) and RMB Nil (2003: RMB Nil) paid to three (2003: three) independent non-executive directors for the year ended 30th June 2004.

No directors waived any emoluments during the year. No incentive payments for joining the Group or compensation for loss of office was paid or is payable to any director for the years ended 30th June 2004 and 2003.

The remuneration of the directors is within the following bands:

	The Group	
	Number of directors 2004	Number of directors 2003
Nil–RMB1,060,000 (equivalent to approximately nil–HK$1,000,000)	7	8

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2003: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other one (2003: one) individual are as follows:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Salaries and other emoluments	276	276
Retirement scheme contributions	13	13
	289	289

During the years ended 30th June 2004 and 2003, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the one (2003: one) individuals with the highest emoluments are within the following bands:

	The Group	
	Number of individuals 2004	Number of individuals 2003
Nil–RMB1,060,000 (equivalent to approximately nil–HK$1,000,000)	1	1

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately RMB12,493,000 (2003: RMB13,500,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	The Company	
	2004 *RMB'000*	2003 *RMB'000*
Amount of consolidated loss attributable to shareholders dealt with in the company's financial statements	(12,493)	(13,500)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	16,960	13,010
Company's profit/(loss) for the year *(note 25(b))*	4,467	(490)

10. DIVIDENDS

(a) Dividends attributable to the year

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Final dividend proposed after the balance sheet date of HK$0.035 (equivalent to approximately RMB0.0371) per ordinary share (2003: HK$0.04 (equivalent to approximately RMB0.0424) per ordinary share)	17,349	17,410

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Final dividend of HK$0.04 (equivalent to approximately RMB0.0424) per ordinary share (2003: HK$0.03 (equivalent to approximately RMB0.0318 per ordinary share)) in respect of the previous financial year, approved and paid during the year	17,410	12,803

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB81,212,000 (2003: RMB73,357,000) and on the weighted average of 432,977,000 (2003: 402,625,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the year ended 30th June 2004 was not presented as there were no dilutive potential shares in existence during the year ended 30th June 2004.

The calculation of diluted earnings per share for the year ended 30th June 2003 is based on the profit attributable to shareholders of RMB73,357,000 and the weighted average number of 402,716,859 ordinary shares after adjusting for the effects of all potential dilutive shares.

12. SEGMENT REPORTING

Information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

Throughout the years ended 30th June 2004 and 2003, the Group has been involved in operating a single business segment, i.e. the manufacture and sales of printed circuit boards.

(b) Geographical Segment

In presenting information on the basis of geographical segments, segment revenue results and depreciation are based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

The Group's business is principally managed in the PRC, and the Group's customers are mainly located in the PRC (including Hong Kong), Australia, United States of America and Germany.

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Revenue from external customers		
— PRC, excluding Hong Kong	250,521	201,909
— Hong Kong	3,183	5,750
— Taiwan	11,147	—
— Australia	31,562	29,510
— United States of America	1,097	800
— Germany	3,691	3,449
— Others	54	125
Total revenue from external customers	301,255	241,543
Other revenue		
— PRC, excluding Hong Kong	1,824	490
— Hong Kong	36	124
Total other revenue	1,860	614
Total operating revenue	303,115	242,157

	The Group	
	2004 RMB'000	2003 RMB'000
Segment results		
— PRC, excluding Hong Kong	109,834	93,405
— Hong Kong	1,408	2,770
— Taiwan	4,806	—
— Australia	13,608	13,580
— United States of America	473	368
— Germany	1,591	1,587
— Others	23	58
	131,743	111,768
Unallocated operating income and expenses	(24,029)	(22,961)
Profit from operations	107,714	88,807
Finance costs	(7,043)	(2,567)
Share of profits less losses of associates	2,732	793
Taxation	(14,749)	(3,874)
Minority interests	(7,442)	(9,802)
Profit attributable to shareholders	81,212	73,357
Depreciation		
— PRC, excluding Hong Kong	8,500	7,541
— Hong Kong	229	332
— Taiwan	377	—
— Australia	1,068	1,102
— United States of America	37	30
— Germany	125	129
— Others	2	5
	10,338	9,139

More than 90% of the segment assets as at 30th June 2004 and 2003 and capital expenditures for the years ended 30th June 2004 and 2003 are in the PRC, including Hong Kong.

13. FIXED ASSETS

(a) The Group

	Land and buildings held for own use *RMB'000*	Machinery *RMB'000*	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
Cost or valuation:						
At 1st July 2003	39,727	74,945	2,866	3,249	18,717	139,504
Additions	4,364	10,863	395	298	1,222	17,142
Transfers	7,431	8,740	—	—	(16,171)	—
Disposals	—	—	—	(185)	(3,000)	(3,185)
At 30th June 2004	51,522	94,548	3,261	3,362	768	153,461
Representing:						
At cost	12,065	94,548	3,261	3,362	768	114,004
At valuation by a qualified valuer — 2002	39,457	—	—	—	—	39,457
	51,522	94,548	3,261	3,362	768	153,461
Aggregate depreciation:						
At 1st July 2003	1,060	25,902	1,828	2,514	—	31,304
Charge for the year	1,830	7,349	569	590	—	10,338
Written back on disposals	—	—	—	(93)	—	(93)
At 30th June 2004	2,890	33,251	2,397	3,011	—	41,549
Net book value:						
At 30th June 2004	48,632	61,297	864	351	768	111,912
At 30th June 2003	38,667	49,043	1,038	735	18,717	108,200

(b) The Company

	Furniture and equipment *RMB'000*
Cost	
At 1st July 2003 and 30th June 2004	125
Aggregate depreciation	
At 1st July 2003	53
Charge for the year	25
At 30th June 2004	78
Net book value	
At 30th June 2004	47
At 30th June 2003	72

(c) All land and buildings are located in the PRC and are held under land use right for 25 years up to 2025.

(d) The Group's land and buildings held for own use were revalued at 31st October 2002 by Sallmanns (Far East) Ltd., an independent qualified valuers, at their open market value.

The carrying amount of the land and buildings held for own use of the Group at 30th June 2004 would have been approximately RMB37,249,000 (2003: RMB39,116,000) had they been carried at cost less accumulated depreciation.

14. INVESTMENTS IN SUBSIDIARIES

	The Company 2004 *RMB'000*	2003 *RMB'000*
Unlisted shares, at cost	93,974	93,974

The underlying value of the subsidiaries is, in the opinion of the Company's directors, not less than the carrying value as at 30th June 2004.

(Expressed in Chinese Renminbi)

Details of the subsidiaries as at 30th June 2004 were as follows:

Name of company	Place of incorporation/and/ or operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest Group's effective interest	held by the Company	held by the subsidiary	Principal activities
Superford Holding Limited	British Virgin Islands/ Hong Kong	10,001shares of US$1 each	100%	100%	—	Investment holding
Artic Hong Kong Limited	Hong Kong	2 shares of HK$1 each	100%	100%	—	Provision of administrative services to the Group
Dynamic Fortune Technology Limited	British Virgin Islands	100 shares of US$1 each	100%	100%	—	Investment holding
China Electronic Holdings Limited	Hong Kong	2 shares of HK$1 each	100%	100%	—	Not yet commenced business
Tempest Trading Limited	British Virgin Islands	1 share of US$1 each	100%	100%	—	Investment holding
Winrise International Limited	British Virgin Islands	100 shares of US$1 each	100%	100%	—	Not yet commenced business
Fujian Fuqiang Delicate Circuit Plate Co., Ltd.*	PRC	RMB46,000,000	90%	—	90%	Research and development of computer hardware, software and systems as well as the provision of ancillary services in relation to power supply systems
Gemini Electronics (Huizhou) Co. Ltd.*	PRC	US$12,820,000	100%	—	100%	Not yet commenced business

* Registered under the laws of the PRC as foreign investment enterprise.

15. INTERESTS IN ASSOCIATES

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Share of net assets	12,978	5,758
Goodwill *(note a)*	37,432	41,969
	50,410	47,727

Details of the associates as at 30th June 2004 were as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital/ registered capital	Percentage of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activity
Floret Industries Limited	Incorporated	British Virgin Islands/ Hong Kong	US$100	49.00%	—	49.00%	Investment holding
福州威美電子有限公司	Sino-foreign equity joint venture	PRC	HK$6,000,000	49.00%	—	49.00%	Investment holding and trading of electronic components
福州天方科技有限公司	Sino-foreign equity joint venture	PRC	RMB$3,000,000	40,67%	—	40.67%	R&D, manufacture, sale of products and ancillary services
Sail Information Science and Technology Co. Ltd. ("福州啟帆信息科技有限公司")	Sino-foreign equity joint venture	PRC	RMB1,000,000	42.75%	—	42.75%	Not yet commenced business

Notes:

(a) Goodwill on acquisition of associates

	The Group *RMB'000*
COST	
At 1st July 2003 and 30th June 2004	45,371
ACCUMULATED AMORTISATION	
At 1st July 2003	3,402
Amortisation for the year	4,537
At 30th June 2004	7,939
NET BOOK VALUE	
At 30th June 2004	37,432
At 30th June 2003	41,969

(b) Additional financial information in respect of the Group's significant associates

The financial information of Floret Industries Limited and its subsidiaries, which is material in the context of the Group's financial statements, as extracted from the unaudited consolidated financial statements for the year ended 30th June 2004 is summarised below:

(i) *Consolidated operating results for the year*

	Year ended 30th June 2004 *RMB'000*	Period from 1st October 2002 30th June 2003 *RMB'000*
Turnover	30,330	16,838
Profit before taxation	14,835	8,563
Profit for the year/period	14,734	8,428
Attributable share of associates' profits for the year/period	7,220	4,129

(ii) *Consolidated financial position*

	At 30th June 2004 *RMB'000*	At 30th June 2003 *RMB'000*
Non-current assets	438	508
Negative goodwill	(2,410)	(2,717)
Current assets	43,626	39,275
Current liabilities	(8,857)	(21,575)
Minority interest	(6,311)	(3,739)
Net assets	26,486	11,752
Attributable share of associates' net assets	12,978	5,758

16. LOAN RECEIVABLE

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Loan advanced to an independent third party	30,000	—

The loan is unsecured, bears interest at 8% per annum and is repayable in March 2009.

17. INVENTORIES

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Raw materials, at cost	9,272	5,851
Less: Provision for obsolete and slow-moving inventories	(1,084)	(1,084)
	8,188	4,767
Work-in-progress, at cost	2,190	1,008
Finished goods, at cost	1,696	2,415
	12,074	8,190

The carrying amount of RMB8,188,000 (2003: RMB4,767,000) of raw materials was carried at net realisable value. Other inventories were carried at cost.

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004 *RMB'000*	2003 *RMB,000*	2004 *RMB'000*	2003 *RMB'000*
Amounts due from subsidiaries	—	—	157,454	91,071
Trade receivables	128,395	94,669	—	—
Advances to suppliers for purchase of raw materials	17,138	19,365	—	—
Rental and other deposits	220	283	—	2
Advances to employees	864	717	—	—
Prepayments	1,400	1,124	—	—
Others	746	428	—	—
	148,763	116,586	157,454	91,073

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayments.

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered within one year.

Included in trade and other receivables are trade receivables with the following ageing analysis:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Current — within 3 months	113,633	87,216
Current — 3 to 6 months	17,459	12,846
More than 6 months but less than 12 months overdue	7,696	1,356
More than 12 months overdue	4,548	2,392
	143,336	103,810
Less: Provision for bad and doubtful debts	(14,941)	(9,141)
	128,395	94,669

Debts are usually due within 180 days from the date of billing. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. PLEDGED BANK DEPOSITS

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Maturing after three months from placement	5,329	5,350

This bank deposit has been pledged to bank for bank loan granted to the Group.

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004 *RMB'000*	2003 *RMB'000*	2004 *RMB'000*	2003 *RMB'000*
Trade payables	14,211	14,577	—	—
Bills payable	3,728	1,050	—	—
Customers' deposits	648	2,982	—	—
Amount due to a director	12,307	1,558	50	49
Other payables and accruals	17,352	9,369	791	613
Other tax payable	4,430	10,091	—	—
Dividend payable to a minority shareholder	1,894	1,451	—	—
	54,570	41,078	841	662

Amount due to a director is unsecured, non-interest bearing and has no fixed terms of repayment.

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Due within 3 months	10,258	11,166
Due after 3 months but within 6 months	1,614	1,004
Due after 6 months but within 12 months	1,745	836
Due after 12 months	594	1,571
	14,211	14,577

21. SHORT-TERM BANK LOANS

At 30th June 2004, the short-term bank loans of the Group were secured as follows:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Bank loan secured by bank deposit *(note (i))*	4,500	4,800
Unsecured bank loans *(note (ii))*	65,800	37,000
	70,300	41,800

Notes:

(i) Bank deposit of RMB5,329,000 (2003: RMB5,350,000) was pledged to a bank for a bank loan of RMB4,500,000 (2003: RMB4,800,000) granted to the Group.

(ii) The corporate guarantee is issued by the Company in respect of bank loans of RMB65,800,000 (2003: RMB37,000,000) granted to a PRC subsidiary.

22. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Provision for PRC enterprise income tax for the year	14,700	7,707
Provisional PRC enterprise income tax paid	(8,311)	(6,696)
	6,389	1,011

(b) Deferred tax assets/liabilities not recognised:

At 30th June 2004, the Group and the Company have not recognised deferred tax assets in respect of tax losses of approximately RMB2,997,000 (2003: RMB1,258,000) and RMB1,974,000 (2003: RMB763,000) respectively as it is not probable that taxable profit will be available against which the tax losses can be utilised.

At 30th June 2004, the Group's tax losses of approximately RMB92,000 (2003: Nil) and RMB2,905,000 (2003: RMB1,258,000) will expire in five years and do not expire respectively, and the tax losses of the Company do not expire under current tax legislation.

The Group and the Company had no significant potential deferred tax assets and liabilities at the balance sheet date.

23. NON-CURRENT BANK LOANS

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Unsecured bank loans	57,876	—

24. SHARE CAPITAL

	The Group and the Company			
	2004		2003	
	Number of shares	Amount	Number of shares	Amount
	'000	*RMB'000*	*'000*	*RMB,000*
Authorised — Ordinary shares of HK$0.10 (equivalent to approximately RMB0.106) each	1,000,000	106,000	1,000,000	106,000
Issued and fully paid — Ordinary shares of HK$0.10 (equivalent to approximately RMB0.106) each				
At 1st July	402,625	42,678	402,625	42,678
Shares issued under share option scheme *(note (a))*	8,000	848	—	—
Shares issued under private placement *(note (b))*	57,000	6,042	—	—
At 30th June	467,625	49,568	402,625	42,678

Notes:

(a) During the year, options were exercised to subscribe for 8,000,000 ordinary shares in the Company at a consideration of approximately RMB8,437,600, of which RMB848,000 was credited to share capital and the balance of approximately RMB7,589,600 was credited to the share premium.

(b) On 16th January 2004, the Company entered into a placing agreement and subscription agreement with Mr. Lin Wan Qaing, under which Mr. Lin Wan Qaing, the controlling shareholder of the Company, placed 57,000,000 ordinary shares of the Company at a price of HK$1.40 (equivalent to RMB1.48) per ordinary share and subscribed for 57,000,000 ordinary shares of the Company at a price of HK$1.40 (equivalent to RMB1.48) per ordinary share. The net proceeds of approximately HK$76,578,000 (equivalent to RMB81,173,000) were used as general working capital of the Group and for the further development of the Group's printed circuit board fabrication capacity.

25. RESERVES

(a) The Group

	Share premium RMB'000	Contributed surplus *(note (i))* RMB'000	Capital reserve *(note (ii))* RMB'000	Property revaluation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1st July 2002	76,454	—	46,115	256	128,386	251,211
Dividend approved in respect of the previous year	—	—	—	—	(12,803)	(12,803)
Profit for the year	—	—	—	—	73,357	73,357
Deficit on revaluation of land and building	—	—	—	(256)	—	(256)
At 30th June 2003 and 1st July 2003	76,454	—	46,115	—	188,940	311,509
Premium on shares issued under share option scheme *(note 24(a))*	7,590	—	—	—	—	7,590
Provision on shares issued under private placement *(note 24(b))*	78,546	—	—	—	—	78,546
Share issuance expenses	(3,415)	—	—	—	—	(3,415)
Dividend approved in respect of the previous year *(note 10(b))*	—	—	—	—	(17,410)	(17,410)
Profit for the year	—	—	—	—	81,212	81,212
At 30th June 2004	159,175	—	46,115	—	252,742	458,032

(b) The Company

	Share premium RMB'000	Contributed surplus *(note (i))* RMB'000	Capital reserve *(note (ii))* RMB'000	Property revaluation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1st July 2002	76,454	93,867	—	—	(9,737)	160,584
Dividend approved in respect of the previous year *(note 10(b))*	—	(12,803)	—	—	—	(12,803)
Loss for the year	—	—	—	—	(490)	(490)
At 30th June 2003 and 1st July 2003	76,454	81,064	—	—	(10,227)	147,291
Premium on shares issued under share option scheme *(note 24(a))*	7,590	—	—	—	—	7,590
Premium on shares issued under private placement *(note 24(b))*	78,546	—	—	—	—	78,546
Share issuance expenses	(3,415)	—	—	—	—	(3,415)
Dividend approved in respect of the previous year *(note 10(b))*	—	(17,410)	—	—	—	(17,410)
Profit for the year	—	—	—	—	4,467	4,467
At 30th June 2004	159,175	63,654	—	—	(5,760)	217,069

Included in the figure for the retained profits of the Group is an amount of approximately RMB11,349,000 (2003: RMB4,129,000), being the retained profits attributable to associates.

Notes:

(i) The contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (note 1(a)).

(ii) The capital reserve of the Group represents (i) capital reserve of a subsidiary and (ii) the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the group reorganisation.

(iii) As stipulated by rules and regulations in the PRC, Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fujian Fuqiang"), a sino-foreign equity joint venture established in the PRC, is required to appropriate part of its after-tax profit (after offsetting prior year losses) to a general reserve fund and enterprise expansion reserve fund at rates as determined by the board of directors. During the year ended 30th June 2004, the board of directors of Fujian Fuqiang determined not to make any appropriation to the general reserve fund and enterprise expansion fund (2003: nil)

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

As at 30th June 2004, the Company's reserves available for distribution to shareholders amounted to approximately RMB217,069,000 (2003: RMB147,291,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium and contributed surplus of approximately RMB159,175,000 (2003: RMB76,454,000) and RMB63,654,000 (2003: RMB81,064,000), respectively, less accumulated losses of approximately RMB5,760,000 (2003: RMB10,227,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

26. EMPLOYEE RETIREMENT BENEFITS

Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by an independent approved trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF Scheme vest immediately.

PRC, other than Hong Kong

The PRC subsidiary of the Group participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employers' contributions vest fully once they are made. Under this scheme, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outsides Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 30th June 2004 in respect of the retirement of its employees.

27. EQUITY COMPENSATION BENEFITS

The Company adopted an employee share option scheme on 8th May 2001 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any Company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board of directors of the Company and was less than the highest of (i) the nominal value of the Company's shares, (ii) the average of the closing price of the shares quoted on the GEM of the Stock Exchange for the five business days immediately preceding the date of grant and (iii) the closing price of the shares on the GEM of the Stock Exchange on the date of grant. No options had been granted since the commencement of this share option scheme.

On 9th January 2003, the Company terminated the above scheme and adopted a new share option scheme for a period of 10 years commencing from that date. Under the terms of this scheme, the exercise price of options will be determined by the board of directors of the Company and will be highest of (i) the nominal value of the Company's shares, (ii) the closing price of the shares on the Main Board of the Stock Exchange on the date of grant and (iii) the average closing price of the shares on the Main Board of the Stock Exchange for the five business days immediately preceding the date of grant. Each option gives the holder the right to subscribe for one share.

(a) Movements in share options

	Number of options 2004 '000	2003 '000
At 1st July	15,000	—
Issued	—	15,000
Exercised	(8,000)	—
Expired	(7,000)	—
At 30th June	—	15,000
Options vested at 30th June	—	15,000

(b) Terms of unexpired and unexercised share options at balance sheet date

Date of granted	Exercise period	Exercise price HK$	Number of options 2004 '000	2003 '000
2nd May 2003	2nd May 2003 to 2nd May 2004	0.99	—	4,000
21st May 2003	21st May 2003 to 21st May 2004	0.96	—	4,000
26th May 2003	26th May 2003 to 26th May 2004	1.00	—	7,000
			—	15,000

(c) Details of share options granted during the year, all of which were granted for nil consideration

Exercise period	Exercise price HK$	Number of options 2004 '000	2003 '000
2nd May 2003 to 2nd May 2004	0.99	—	4,000
21st May 2003 to 21st May 2004	0.96	—	4,000
26th May 2003 to 26th May 2004	1.00	—	7,000
		—	15,000

(d) Details of share options exercise during the year

Exercise date	Options exercise price	Market value purchase at exercise date	Proceeds recovered *RMB'000*	Number
8th September 2003	HK$0.99	HK$1.43	990,000	1,000,000
9th September 2003	HK$0.99	HK$1.40	1,980,000	2,000,000
16th September 2003	HK$0.99	HK$1.50	990,000	1,000,000
16th September 2003	HK$1.00	HK$1.50	2,000,000	2,000,000
17th September 2003	HK$1.00	HK$1.51	1,000,000	1,000,000
18th September 2003	HK$1.00	HK$1.48	1,000,000	1,000,000
				8,000,000

28. COMMITMENTS

(a) Capital commitments outstanding at 30th June 2004 not provided for in the financial statements were as follows:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Contracted for		
— acquisition of fixed assets	80,021	5,756

(b) At 30th June 2004, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Within 1 year	1,110	652
After 1 year but within 5 years	538	150
	1,648	802

29. CONTINGENT LIABILITIES

As at 30th June 2004, there were contingent liabilities in respect of bank loans utilised by a PRC subsidiary and guaranteed by the Company amounting to RMB65,800,000 (2003: RMB37,000,000).

30. MATERIAL RELATED PARTY TRANSACTIONS

During the year, particulars of significant transactions between the Group and related parties were as follows:

	The Group	
	2004 *RMB'000*	2003 *RMB'000*
Transportation fee charged by Fujian Furi Container Freight Transport Company *(note (i))*	319	1,557
Lease rental charged by He Yu Zhu *(note (ii))*	422	422

Notes:

(i) This company is owned by Fujian Furi Group Company, the holding company of Fujian Furi Electronics Co., Ltd., a minority shareholder of the PRC subsidiary.

As at 30th June 2004, the Group had an amount due to Fujian Furi Container Freight Transport Company of approximately RMB428,000 (2003: RMB973,000), arising from transportation fee charged by this related company as if trades with other customers included in trade payables. Such amount is unsecured, non-interest bearing and without pre-determined repayment terms.

(ii) During the year, the Group entered into lease arrangement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Qaing who is the controlling shareholder and a director of the Company, for leasing of an office premises in Fuzhou, the PRC. Office rentals are payable at a pre-determined amount per month by reference to market rates in accordance with the terms of the tenancy agreement signed by the Group and Ms. He Yu Zhu.

31. POST BALANCE SHEET EVENTS

After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 10.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.