



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda with limited liability under the Bermuda Companies Act 1981 as an exempted company, on 18 August 1998. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Company's principal activity was investment holding. The principal activities of the subsidiaries comprised the design, development, manufacture and sale of a wide range of (1) electronics and related components and parts (including principally quartz crystals, liquid crystal displays, printed circuit boards and watch movements); and (2) consumer electronic products (including principally electronic calculators, electronic watches and clocks and personal data assistants). They were also engaged in the trading of electronics and related components and parts. During the year, the Group commenced trading of computer components and accessories.

Save for the above, there were no significant changes in the nature of the Company's and Group's principal activities during the year.

## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following revised SSAP and new Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes – Recovery of revalued non-depreciable assets"

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

SSAP 12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).



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## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP") (continued)

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group's investment property, leasehold land and buildings, plant, machinery and office equipment, and motor vehicles; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 26 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 26 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment property in the deferred tax calculated under SSAP 12.



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the investment property, certain fixed assets and long term investments, and short term investments, as further explained below.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Joint venture companies *(continued)***

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### **Jointly-controlled entity**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

### **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.



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of assets**

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 profit and loss account 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 profit and loss account 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.

### **Fixed assets and depreciation**

Fixed assets, other than investment property and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than the investment property, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### Fixed assets and depreciation (*continued*)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land held in Mainland China under medium term land use rights	Over the period of the land use rights
Leasehold land held in Hong Kong under medium term leases	Over the lease terms
Buildings	2% to 5%
Leasehold improvements	10%
Plant, machinery and office equipment	10%
Moulds	10%
Motor vehicles	10%
Furniture and fixtures	10%

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

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

### Investment property

Investment property is an interest in land and building in respect of which construction work and development have been completed and which is intended to be held on a long term basis for its investment potential, any rental income being negotiated at arm's length. Such property is not depreciated and is stated at its open market value on the basis of annual professional valuation performed at the end of each financial year.

Changes in the value of investment property are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.



# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### Long term investments

Long term investments in unlisted equity securities are intended to be held on a continuing basis for identified long term purposes documented at the time of acquisition or change of purpose. Such investments are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Long term investments in debt securities redeemable at fixed dates are intended to be held to maturity and are stated at amortised cost less any impairment losses, on an individual investment basis.



# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Short term investments

Certificates of deposit redeemable at fixed dates are intended to be held to maturity and are stated at amortised cost less any impairment losses, on an individual investment basis. Investments other than certificates of deposit were stated at their fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of such investments are credited or charged to the profit and loss account in the period in which they arise.

### Inventories

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

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries and a jointly-controlled entity, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.





# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Income tax *(continued)***

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries and a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.



# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

#### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension 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 profit and loss account 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 lapse, are deleted from the register of outstanding options.



# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### 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 profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and a jointly-controlled entity are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and the jointly-controlled entity 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.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### Cash and cash equivalents

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

For the purpose of the consolidated balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.



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## 4. SEGMENT INFORMATION

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

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

- (a) the electronic components and parts segment consists of the design, development, manufacture and sale of electronic and related components and parts;
- (b) the consumer electronic products segment consists of the design, development, manufacture and sale of consumer electronic products; and
- (c) the trading segment consists of the trading of integrated circuits and computer components and accessories.

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

# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

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

Group	Electronic components and parts		Consumer electronic products		Trading of integrated circuits and computer components and accessories		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)
Segment revenue:								
Sales to external customers	217,165	163,275	628,267	488,058	53,741	40,004	899,173	691,337
Other revenue	802	98	1,839	409	21	20	2,662	527
<b>Total</b>	<b>217,967</b>	<b>163,373</b>	<b>630,106</b>	<b>488,467</b>	<b>53,762</b>	<b>40,024</b>	<b>901,835</b>	<b>691,864</b>
<b>Segment results</b>	<b>6,771</b>	<b>7,167</b>	<b>39,782</b>	<b>19,503</b>	<b>(2,663)</b>	<b>1,503</b>	<b>43,890</b>	<b>28,173</b>
Interest and unallocated other revenue and gains							1,604	804
Unallocated expenses							(919)	(1,035)
Profit from operating activities							44,575	27,942
Finance costs							(2,761)	(6,368)
Share of profit of a jointly-controlled entity							1,837	363
Profit before tax							43,651	21,937
Tax							(8,575)	(4,634)
Net profit from ordinary activities attributable to shareholders							<b>35,076</b>	<b>17,303</b>

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group	Electronic components and parts		Consumer electronic products		Trading of integrated circuits and computer components and accessories		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	376,536	380,459	390,196	433,620	37,454	41,333	804,186	855,412
Interest in a jointly-controlled entity							16,081	16,288
Unallocated assets							247,213	208,133
<b>Total assets</b>							<b>1,067,480</b>	<b>1,079,833</b>
Segment liabilities	46,455	34,229	87,039	47,414	15,224	12,188	148,718	93,831
Unallocated liabilities							33,989	126,147
<b>Total liabilities</b>							<b>182,707</b>	<b>219,978</b>
Other segment information:								
Capital expenditure	25,967	2,723	14,296	14,264	-	-	40,263	16,987
Unallocated capital expenditure							2,016	31
							<b>42,279</b>	<b>17,018</b>
Depreciation	30,118	21,448	22,198	22,723	-	-	52,316	44,171
Unallocated depreciation							1,426	1,414
							<b>53,742</b>	<b>45,585</b>
Provision for inventories	4,063	-	7,883	-	4,232	-	16,178	-
Provision for doubtful debts	4,906	3,728	15,794	4,901	801	885	21,501	9,514

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group	Electronic components and parts		Consumer electronic products		Trading of integrated circuits and computer components and accessories		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information: (continued)								
Revaluation surplus/ (deficit) on an investment property							550	(90)

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Other Asian countries		American countries		European countries		African countries		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	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 revenue:														
Sales to external customers	208,383	159,750	110,667	113,136	152,396	115,836	176,493	115,954	153,141	110,046	98,093	76,615	899,173	691,337
Other segment information:														
Segment assets	218,310	156,239	829,914	875,322	18,783	7,974	473	15,824	-	14,006	-	10,468	1,067,480	1,079,833
Capital expenditure	1,141	31	41,138	16,987	-	-	-	-	-	-	-	-	42,279	17,018



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### 5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of the Group's other revenue and gains is as follows:

	2004 HK\$'000	2003 HK\$'000
<b>Other revenue</b>		
Interest income	175	341
Net rental income	283	420
Sale of by-products	1,241	40
Others	875	488
	<b>2,574</b>	<b>1,289</b>
<b>Gains</b>		
Gain on disposal of long term investments	1,089	–
Gain on revaluation of short term investments	53	42
Revaluation surplus on an investment property	550	–
	<b>1,692</b>	<b>42</b>
	<b>4,266</b>	<b>1,331</b>



# NOTES TO FINANCIAL STATEMENTS

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## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	787,311	605,206
Depreciation	53,742	45,585
Minimum lease payments under operating leases in respect of land and buildings	769	545
Auditors' remuneration	930	930
Staff costs (excluding directors' remuneration – note 8(a)):		
Wages, salaries and allowances	137,133	111,823
Pension schemes contributions (defined contribution schemes)***	3,845	4,073
	<b>140,978</b>	<b>115,896</b>
Write-off and provision for other receivables*	–	1,768
Provision for inventories**	16,178	–
Revaluation deficit on an investment property	–	90
Exchange losses/(gains), net	1,725	(56)
Loss/(gain) on disposal of fixed assets	117	(19)

The cost of inventories sold includes direct staff costs and depreciation of approximately HK\$176,165,000 (2003: HK\$142,337,000) which are also included in the respective total amounts disclosed above for each of these types of expenses.

\* Included in "Other operating expenses" on the face of the consolidated profit and loss account.

\*\* Included in "Cost of sales" on the face of the consolidated profit and loss account.

\*\*\* As at 30 September 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).



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## 7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans wholly repayable within five years	2,757	6,353
Interest on a finance lease	4	15
	<b>2,761</b>	<b>6,368</b>

## 8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

### (a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees	330	240
Other emoluments:		
Salaries and allowances	8,176	9,093
Pension scheme contributions	42	60
	<b>8,218</b>	<b>9,153</b>
	<b>8,548</b>	<b>9,393</b>

Fees represent HK\$330,000 (2003: HK\$240,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).



## NOTES TO FINANCIAL STATEMENTS

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### 8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (*continued*)

#### (a) Directors' remuneration (*continued*)

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

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	8	4
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	1	3
HK\$2,500,001 to HK\$3,000,000	1	–
	<b>10</b>	<b>8</b>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

#### (b) Five highest paid employees' remuneration

The five highest paid employees during the year included five (2003: five) directors, details of whose remuneration are set out in (a) above.

# NOTES TO FINANCIAL STATEMENTS

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## 9. TAX

	Group	
	2004 HK\$'000	2003 HK\$'000 (Restated)
Current – Hong Kong		
Charge for the year	405	2,208
Under/(over) – provision in prior years	(119)	68
Current – Mainland China		
Charge for the year	7,794	2,880
Underprovision in prior years	2,210	–
Deferred tax (note 26)	(1,941)	(522)
	<b>8,349</b>	<b>4,634</b>
Share of tax attributable to a jointly-controlled entity	226	–
<b>Total tax charge for the year</b>	<b>8,575</b>	<b>4,634</b>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to a tax concession granted in prior years, the income tax rate applicable to Xinwei Electronic Industrial Co. Ltd., Fujian (“Fujian Xinwei”) was 15%. On 14 April 2003, an additional tax concession was granted by the local municipal tax bureau, under which the effective income tax rate applicable to Fujian Xinwei was revised to 10% for the period from 1 January 2003 to 31 December 2003, in place of the previous tax arrangements resulting from the merger of Fujian Xinwei and the Group’s previous operating subsidiary, Putian Kangarway Industrial Co. Ltd., which was dissolved immediately after its merger with Fujian Xinwei on 3 October 1996 (the “Previous Arrangement”). As a result, for the period from 1 October 2002 to 31 December 2002, a provision for income tax had been made at the weighted average rate of 10%, based on the Previous Arrangement. For the period from 1 January 2003 to 30 September 2003, a provision for income tax has been made at a tax rate of 10% for the entire assessable profit attributable to Fujian Xinwei. For the year ended 30 September 2003, the effective corporate income tax rate applicable to Fujian Xinwei was 10% on a weighted average basis.

On 5 April 2004, a further additional tax concession has been granted by the local municipal tax bureau, under which the effective income tax rate applicable to Fujian Xinwei has remained at 10% for the period from 1 January 2004 to 31 December 2004. As a result, for the year ended 30 September 2004, a provision for income tax has been made at a tax rate of 10% for the entire assessable profit attributable to Fujian Xinwei.

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 9. TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the region in which the Company, its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates, is as follows:

### Group – 2004

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	(8,386)	52,037	43,651
Tax at the statutory tax rate	(1,467)	17,172	15,705
Lower tax rate for specific province or local authority	–	(11,922)	(11,922)
Adjustments in respect of current tax of previous periods	(119)	2,210	2,091
Income not subject to tax	(302)	–	(302)
Expenses not deductible for tax	314	733	1,047
Tax losses utilised from previous periods	(335)	–	(335)
Tax losses not recognised	2,291	–	2,291
<b>Tax charge at the Group's effective rate</b>	<b>382</b>	<b>8,193</b>	<b>8,575</b>

### Group – 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	(1,144)	23,081	21,937
Tax at the statutory tax rate	(201)	7,617	7,416
Lower tax rate for specific province or local authority	–	(5,344)	(5,344)
Adjustments in respect of current tax of previous periods	68	–	68
Income not subject to tax	(106)	–	(106)
Expenses not deductible for tax	481	–	481
Tax losses utilised from previous periods	(353)	(45)	(398)
Tax losses not recognised	2,387	130	2,517
<b>Tax charge at the Group's effective rate</b>	<b>2,276</b>	<b>2,358</b>	<b>4,634</b>



# NOTES TO FINANCIAL STATEMENTS

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## 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30 September 2004 dealt with in the financial statements of the Company, was HK\$6,965,000 (2003: HK\$7,781,000) (note 29).

## 11. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Proposed final – 1 cent (2003: 1 cent) per ordinary share	<b>10,160</b>	10,160

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 net profit from ordinary activities attributable to shareholders for the year of HK\$35,076,000 (2003 (Restated): HK\$17,303,000) and the weighted average of 1,016,001,301 (2003: 1,016,001,301) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 30 September 2004 and 2003 have not been disclosed, as all share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

# NOTES TO FINANCIAL STATEMENTS

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## 13. FIXED ASSETS

### Group

	Investment property HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant, machinery and office equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	1,600	208,722	48,897	332,920	18,977	14,421	932	1,811	628,280
Additions	-	-	3,247	36,165	-	1,946	286	635	42,279
Disposals	-	-	-	-	-	(610)	-	-	(610)
Transfers	-	-	2,446	-	-	-	-	(2,446)	-
Revaluation	550	-	-	-	-	-	-	-	550
<b>At 30 September 2004</b>	<b>2,150</b>	<b>208,722</b>	<b>54,590</b>	<b>369,085</b>	<b>18,977</b>	<b>15,757</b>	<b>1,218</b>	<b>-</b>	<b>670,499</b>
Accumulated depreciation:									
At beginning of year	-	8,331	10,970	145,143	15,015	10,458	795	-	190,712
Provided during the year	-	9,279	5,052	35,945	1,898	1,456	112	-	53,742
Disposals	-	-	-	-	-	(453)	-	-	(453)
<b>At 30 September 2004</b>	<b>-</b>	<b>17,610</b>	<b>16,022</b>	<b>181,088</b>	<b>16,913</b>	<b>11,461</b>	<b>907</b>	<b>-</b>	<b>244,001</b>
Net book value:									
<b>At 30 September 2004</b>	<b>2,150</b>	<b>191,112</b>	<b>38,568</b>	<b>187,997</b>	<b>2,064</b>	<b>4,296</b>	<b>311</b>	<b>-</b>	<b>426,498</b>
<b>At 30 September 2003</b>	<b>1,600</b>	<b>200,391</b>	<b>37,927</b>	<b>187,777</b>	<b>3,962</b>	<b>3,963</b>	<b>137</b>	<b>1,811</b>	<b>437,568</b>
An analysis of cost or valuation:									
At cost	-	6,756	54,590	41,258	18,977	2,299	1,218	-	125,098
At valuation:									
Open market value	2,150	7,800	-	-	-	-	-	-	9,950
Depreciated replacement cost	-	194,166	-	327,827	-	13,458	-	-	535,451
	<b>2,150</b>	<b>208,722</b>	<b>54,590</b>	<b>369,085</b>	<b>18,977</b>	<b>15,757</b>	<b>1,218</b>	<b>-</b>	<b>670,499</b>



## NOTES TO FINANCIAL STATEMENTS

30 September 2004

### 13. FIXED ASSETS (continued)

The Group's investment property located in Hong Kong was revalued on 30 September 2004 by Chesterton Petty Limited, independent professionally qualified valuers, at HK\$2,150,000, on an open market, existing use basis. A revaluation surplus of HK\$550,000 has been credited to the profit and loss account resulting from the revaluation. The investment property is leased to a third party under an operating lease, further summary details of which are included in note 30(a) to the financial statements. The investment property is held under a medium term lease.

In the opinion of the directors, there had been a material difference between the fair value and the carrying value of the Group's leasehold land and buildings, plant, machinery and office equipment, and motor vehicles as at 30 September 2002 and therefore professional valuation had been made on 30 September 2002. The Group's leasehold land and buildings located in Hong Kong were revalued on 30 September 2002 by Chesterton Petty Limited, at HK\$7,800,000, on an open market, existing use basis. The Group's leasehold land and buildings located in Mainland China and the Group's plant, machinery and office equipment, and motor vehicles as at 30 September 2004, other than the additions and transfer-in in the years ended 30 September 2003 and 2004, were revalued on 30 September 2002 by Chesterton Petty Limited on a depreciated replacement cost basis, at HK\$194,166,000, HK\$327,827,000 and HK\$13,458,000, respectively.

In the opinion of the directors, there was no material movement in fair value of those revalued fixed assets. Accordingly no professional valuation of such leasehold land and buildings, plant, machinery and office equipment, and motor vehicles was made as at 30 September 2004 because the directors are of the opinion that the fair value of such revalued fixed assets at 30 September 2004 is not significantly different from the carrying amount at 30 September 2002 and that a further professional valuation would involve expense out of proportion to the value to the shareholders of the Group.

As at 30 September 2004, the carrying values of the leasehold land and buildings, plant, machinery and office equipment, and motor vehicles arising from the additions and transfer-in in the years ended 30 September 2003 and 2004, amounted to HK\$6,756,000, HK\$41,258,000 and HK\$2,299,000, respectively. In the opinion of the directors, the value of such fixed assets at 30 September 2004 is not significantly different from the carrying amount at 30 September 2004. Accordingly, no professional valuation of the additions and transfer-in in the years ended 30 September 2003 and 2004 in respect of leasehold land and buildings, plant, machinery and office equipment, and motor vehicles was made as at 30 September 2004.

Had the Group's leasehold land and buildings, plant, machinery and office equipment, and motor vehicles been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$157,489,000 (2003: HK\$166,625,000), HK\$180,311,000 (2003: HK\$177,140,000) and HK\$4,025,000 (2003: HK\$3,148,000), respectively.





## NOTES TO FINANCIAL STATEMENTS

30 September 2004

### 13. FIXED ASSETS (continued)

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

	<i>HK\$'000</i>
Hong Kong, held under medium term leases	7,800
Mainland China, held under medium term land use rights	200,922
	<hr/> 208,722

As at 30 September 2004, no fixed asset of the Group is held under finance lease. The net book value of the Group's motor vehicle held under a finance lease included in total amount of fixed assets as at 30 September 2003 was HK\$285,000.

The investment property and certain leasehold land and buildings of the Group with a total carrying value of HK\$9,241,000 (2003: HK\$76,679,000) were pledged to secure banking facilities granted to the Group (note 24) as at 30 September 2004. During the year, pledge of certain leasehold land and buildings of the Group has been released.

### 14. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	118,577	118,577
Due from subsidiaries	487,619	496,808
Due to a subsidiary	(2)	(2)
	<hr/> 606,194	<hr/> 615,383

The balances with subsidiaries are unsecured, interest-free and are not repayable within one year from the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and principal operations	Nominal value of issued ordinary/registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sunway International (BVI) Holdings Limited	British Virgin Islands	US\$50,000	100	–	Investment holding
Sungo Holding Company Limited	Hong Kong	Ordinary HK\$3 *Non-voting deferred HK\$6,500,000	–	100	Trading of electronic products
Guidy International Limited	Hong Kong	Ordinary HK\$3 *Non-voting deferred HK\$6,500	–	100	Trading of electronic products
Xinwei Electronic Industrial Co. Ltd., Fujian **	People's Republic of China ("PRC")/ Mainland China	HK\$152,000,000	–	100	Manufacture and trading of electronic products
Sunway Information Technology Company Limited	British Virgin Islands	US\$1	–	100	Investment holding
Kenko International Company Limited	Hong Kong	HK\$10,000	–	100	Trading of electronic products
Regal Honour Industrial Limited	Hong Kong	HK\$10,000	–	100	Trading of computer products
Putian Sunyee LCD Technology Co., Ltd. **	PRC/ Mainland China	HK\$36,000,000	–	100	Manufacture of liquid crystal displays products

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 14. INTERESTS IN SUBSIDIARIES (continued)

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.

\* The holders of the non-voting deferred shares are not entitled to any dividend, have no right to vote at general meetings, and only carry the right to receive the nominal amount paid-up or credited as paid-up on the non-voting deferred shares in a return of capital on liquidation after the holders of ordinary shares have received the sum of HK\$1,000,000,000 per ordinary share.

\*\* The subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

## 15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	9,132	7,521
Due from a jointly-controlled entity	6,949	8,767
	<b>16,081</b>	<b>16,288</b>

The amount due from a jointly-controlled entity is unsecured, interest-free and is not repayable within one year from the balance sheet date.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operation	Percentage of ownership interest, voting power and profit sharing attributable to the Group	Principal activities
Taiwan Communication (Fujian) Company Limited	Corporate	PRC/ Mainland China	40	Manufacture and trading of telecommunication products

Interest in the jointly-controlled entity is indirectly held by the Company.



## NOTES TO FINANCIAL STATEMENTS

30 September 2004

### 16. LONG TERM INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investments, outside Hong Kong, at cost	–	11,625
Unlisted held-to-maturity debt securities with a residual maturity of over one year, at amortised cost	4,980	–
	<b>4,980</b>	<b>11,625</b>

### 17. DEPOSITS PAID FOR ACQUISITION OF FIXED ASSETS

The balances represent aggregate deposits of HK\$6,045,000 paid in respect of the acquisition of land use rights of land located in the PRC and aggregate deposits of HK\$13,791,000 paid in respect of purchases of fixed assets. The related capital commitments are set out in note 31.

### 18. INVENTORIES

An analysis of the inventories as at the balance sheet date, net of provision, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	122,296	165,693
Work in progress	45,202	38,621
Finished goods	72,733	56,980
	<b>240,231</b>	<b>261,294</b>

No inventories were stated at net realisable value as at 30 September 2004. The inventories carried at net realisable value included in the above balance amounted to HK\$572,000 as at 30 September 2003.

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 19. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 90 days of issuance, except for certain well-established customers, where the terms are extended to six months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 3 months	134,065	159,251
4 to 6 months	23,940	22,280
7 to 12 months	15,350	5,076
Over 1 year	20,559	17,147
	<b>193,914</b>	<b>203,754</b>
Less: Provision for doubtful debts	(35,811)	(14,310)
	<b>158,103</b>	<b>189,444</b>

## 20. DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group	30 September 2004 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 October 2003 HK\$'000
Name			
Scientek Enterprise (Hong Kong) Limited	2,940	4,711	1,412

Scientek Enterprise (Hong Kong) Limited is controlled by the spouse of Ms. Wong Choi Kam, a director of the Company. The amount due from a related company is unsecured, interest-free and has no fixed terms of repayment.

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 21. SHORT TERM INVESTMENTS

	Company and Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investment funds, at fair value	-	5,617
Unlisted certificates of deposit with a residual maturity of less than one year, at amortised cost	-	2,225
	-	7,842

## 22. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances		179,420	127,961	27	52
Time deposits		3,087	3,087	-	-
		182,507	131,048	27	52
Less: Pledged time deposits for trust receipt loans facilities	24	(3,087)	(3,087)	-	-
Cash and cash equivalents		179,420	127,961	27	52

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$31,654,000 (2003: HK\$25,758,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.



## NOTES TO FINANCIAL STATEMENTS

30 September 2004

### 23. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 3 months	106,011	65,613
4 to 6 months	3,423	3,468
7 to 12 months	369	265
Over 1 year	1,918	1,756
	<b>111,721</b>	<b>71,102</b>

### 24. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Repayable within one year:		
Bank loans, secured	–	85,463
Trust receipt loans, secured	11,610	13,562
	<b>11,610</b>	<b>99,025</b>

As at 30 September 2004, the Group's bank borrowings are secured by time deposits amounting to HK\$3,087,000 (2003: HK\$3,087,000) (note 22), the investment property and certain leasehold land and buildings held by the Group (note 13) and corporate guarantees given by the Company. As at 30 September 2003, the Group's bank borrowings were also secured by properties of a related company and corporate guarantees given by certain related companies, which were released during the year.

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 25. FINANCE LEASE PAYABLE

At 30 September 2004, the total future minimum lease payments under the finance lease and their present value, were as follows:

Group	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Total minimum finance lease payments payable within one year	-	98	-	94
Less: Future finance charges	-	(4)		
<b>Total net finance lease payable</b>	<b>-</b>	<b>94</b>		

## 26. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

### Deferred tax liabilities

Deferred tax liabilities of the Group arose from revaluation of investment property, leasehold land and buildings, plant, machinery and office equipment, and motor vehicles.

	Group	
	2004 HK\$'000	2003 HK\$'000
At beginning of year:		
As previously reported	-	-
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	7,094	7,616
As restated	7,094	7,616
Deferred tax credited to the profit and loss account during the year (note 9)	(426)	(522)
<b>At end of year</b>	<b>6,668</b>	<b>7,094</b>





## NOTES TO FINANCIAL STATEMENTS

30 September 2004

### 26. DEFERRED TAX (continued)

#### Deferred tax assets

Deferred tax assets of the Group arose from taxable and deductible temporary differences.

	Group	
	2004 HK\$'000	2003 HK\$'000
At beginning of year	–	–
Deferred tax credited to the profit and loss account during the year (note 9)	1,515	–
At end of year	1,515	–

The Group has tax losses arising in Hong Kong and Mainland China of HK\$25.0 million (2003: HK\$13.8 million) and HK\$0.2 million (2003: HK\$0.2 million), respectively, that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 30 September 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or its jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 30 September 2004 and 2003 by HK\$6,668,000 and HK\$7,094,000 respectively and an increase in the Group's deferred tax assets as at 30 September 2004 by HK\$1,515,000. The consolidated net profit attributable to shareholders for the years ended 30 September 2004 and 2003 have been increased by HK\$1,941,000 and HK\$522,000, respectively. As a consequence, the consolidated revaluation reserve as at 1 October 2003 and 2002 has been decreased by HK\$8,172,000 and consolidated retained profits as at 1 October 2003 and 2002 have been increased by HK\$1,078,000 and HK\$556,000 respectively, as detailed in the consolidated summary statement of changes in equity.



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 27. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	1,000,000	1,000,000
Issued and fully paid:		
1,016,001,301 ordinary shares of HK\$0.10 each	101,600	101,600

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

## 28. SHARE OPTION SCHEME

On 25 February 2003, the Company terminated its then share option scheme adopted on 3 September 1999 (the "Old Option Scheme") and adopted a new share option scheme (the "New Option Scheme"). The options granted under the Old Option Scheme will remain in force and effect.

Pursuant to the Old Option Scheme, the exercise price of the share options was determinable by the directors, but could not be less than the higher of (i) 80% of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the five trading days immediately preceding the date of the offer of grant of the share options; or (ii) the nominal value of the shares of the Company.

In response to the amendments by the Hong Kong Stock Exchange in connection with Chapter 17 (Share Option Schemes) of the Listing Rules, the Company terminated the Old Option Scheme and then adopted the New Option Scheme on 25 February 2003 as follows:

The purpose of the New Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the Group, and to enable the Group to recruit and retain high calibre professionals, executives and employees who are instrumental to the growth of the Group. Eligible participants of the New Option Scheme include the directors (including executive directors and non-executive directors), employees of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, joint venture partner or business alliance of the Group and shareholders of the Group. The New Option Scheme, unless otherwise terminated or amended, will remain in force for a period of 10 years from 25 February 2003.



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 28. SHARE OPTION SCHEME (*continued*)

The maximum numbers of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option schemes adopted by the Company must not in aggregate exceed 30% of the shares in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the New Option Scheme, but the Company may seek approval of its shareholders in general meeting to refresh the 10% limit under the New Option Scheme. As at 30 September 2004, the Company had outstanding 33,550,000 share options which were all granted under the Old Option Scheme and the total number of shares issuable for options was 33,550,000. It represented approximately 3.3% of the Company's shares in issue as at that date.

The total number of shares issued and to be issued upon exercise of the share options granted under the New Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

Share options granted under the New Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is also the grantee of the options). 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 closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in general meeting of the Company.

A share option may be accepted by a participant within 21 days from the date of the offer for grant of the option. The exercise period of the share options granted is determinable by the directors in accordance with the terms of the New Option Scheme, and commences from the date of acceptance of the offer of grant of the share options and ends on a date which is not later than 10 years from the date of grant of the share options.

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 28. SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors of the Company, but must not be less than the higher of (i) the closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of the offer for grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for grant, which must be a business day; and (iii) the nominal consideration of HK\$1.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

During the year, 6,000,000 share options lapsed automatically as the grantee of these share options has ceased to be an eligible employee in the Group. Save for the above, no share options were granted, exercised, cancelled, or lapsed under the share option schemes of the Company during the year.

The following share options were outstanding under the share option schemes of the Company during the year:

Name or category of participant	Number of share options at 1 October 2003	Number of share options lapsed during the year	Number of share options at 30 September 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's share at date of grant of options*** HK\$
<b>Directors</b>							
Ms. Wong Choi Kam	6,000,000	-	6,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
Ms. Wong King Ching, Helen	1,500,000	-	1,500,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
Mr. Leung Chi Fai	1,050,000	-	1,050,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
	<u>8,550,000</u>	<u>-</u>	<u>8,550,000</u>				
Other employees in aggregate	31,000,000	(6,000,000)	25,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
	<u>39,550,000</u>	<u>(6,000,000)</u>	<u>33,550,000</u>				



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 28. 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 options is subject to adjustment in the case of rights or bonus issues, or other similar changes in 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 Hong Kong Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.*

At the balance sheet date, the Company had 33,550,000 share options outstanding under the share option schemes of the Company. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 33,550,000 additional ordinary shares of the Company and additional share capital of HK\$3,355,000 and share premium of HK\$36,905,000 (before issue expenses).

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 29. RESERVES

### Group

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 October 2002:							
As previously reported	177,325	56,471	509	56,454	(6,651)	465,146	749,254
Prior year adjustment:							
SSAP 12 – restatement of deferred tax (note 26)	-	-	-	(8,172)	-	556	(7,616)
As restated	177,325	56,471	509	48,282	(6,651)	465,702	741,638
Exchange realignment on translation of the financial statements of foreign subsidiaries	-	-	-	-	(686)	-	(686)
Net profit for the year (Restated)	-	-	-	-	-	17,303	17,303
Proposed final 2003 dividend	-	-	-	-	-	(10,160)	(10,160)
At 30 September 2003	177,325	56,471	509	48,282	(7,337)	472,845	748,095
At 1 October 2003:							
As previously reported	177,325	56,471	509	56,454	(7,337)	471,767	755,189
Prior year adjustment:							
SSAP 12 – restatement deferred tax (note 26)	-	-	-	(8,172)	-	1,078	(7,094)
As restated	177,325	56,471	509	48,282	(7,337)	472,845	748,095
Exchange realignment on translation of the financial statements of foreign subsidiaries	-	-	-	-	2	-	2
Net profit for the year	-	-	-	-	-	35,076	35,076
Proposed final 2004 dividend	-	-	-	-	-	(10,160)	(10,160)
<b>At 30 September 2004</b>	<b>177,325</b>	<b>56,471</b>	<b>509</b>	<b>48,282</b>	<b>(7,335)</b>	<b>497,761</b>	<b>773,013</b>

# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 29. RESERVES (continued)

### Group

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Reserves retained by:							
Company and subsidiaries	177,325	56,471	509	48,282	(7,335)	504,129	779,381
Jointly-controlled entity	-	-	-	-	-	(6,368)	(6,368)
<b>At 30 September 2004</b>	<b>177,325</b>	<b>56,471</b>	<b>509</b>	<b>48,282</b>	<b>(7,335)</b>	<b>497,761</b>	<b>773,013</b>
Company and subsidiaries (as restated)	177,325	56,471	509	48,282	(7,337)	480,824	756,074
Jointly-controlled entity	-	-	-	-	-	(7,979)	(7,979)
At 30 September 2003 (as restated)	177,325	56,471	509	48,282	(7,337)	472,845	748,095

### Company

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 October 2002	177,325	118,377	509	232,231	528,442
Net loss for the year	-	-	-	(7,781)	(7,781)
Proposed final 2003 dividend	-	-	-	(10,160)	(10,160)
At 30 September 2003 and at 1 October 2003	177,325	118,377	509	214,290	510,501
Net loss for the year	-	-	-	(6,965)	(6,965)
Proposed final 2004 dividend	-	-	-	(10,160)	(10,160)
<b>At 30 September 2004</b>	<b>177,325</b>	<b>118,377</b>	<b>509</b>	<b>197,165</b>	<b>493,376</b>



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 29. RESERVES (continued)

- \* *The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the share capital of the subsidiaries acquired at the date of acquisition, over the nominal value of the share capital of the Company issued in exchange therefor and issued on incorporation.*

*The contributed surplus of the Company at the date of acquisition represents the excess of the then combined net assets of the subsidiaries acquired at the date of acquisition over the aggregate of the nominal value of the Company's shares issued in exchange therefor.*

*Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.*

## 30. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment property located in Hong Kong (note 13) and certain of its leasehold land and buildings located in the PRC under operating lease arrangements, with the leases negotiated for terms ranging from one to three years.

At 30 September 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	147	217
In the second to fifth years, inclusive	19	77
	<hr/> 166	<hr/> 294



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 30. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

The Group and the Company lease certain of its leasehold land and buildings under operating lease arrangements. Leases for leasehold land and buildings are negotiated for terms ranging from one to two years.

At 30 September 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	280	226	57	226
In the second to fifth years, inclusive	-	57	-	57
	<b>280</b>	<b>283</b>	<b>57</b>	<b>283</b>

## 31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted, but not provided for:		
Acquisition of fixed assets	1,211	574
Capital contributions to wholly-owned subsidiaries established in Mainland China	176,310	6,937
Authorised, but not contracted for:		
Acquisition of land use rights	15,500	-
	<b>193,021</b>	<b>7,511</b>

The Company did not have any significant commitment at the balance sheet date (2003: Nil).



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 32. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2004 HK\$'000	2003 HK\$'000
Guarantees executed by the Company in favour of banks for general banking facilities granted to subsidiaries	111,000	71,000

As at the balance sheet date, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$11,610,000 (2003: HK\$13,562,000).

## 33. RELATED PARTY TRANSACTIONS

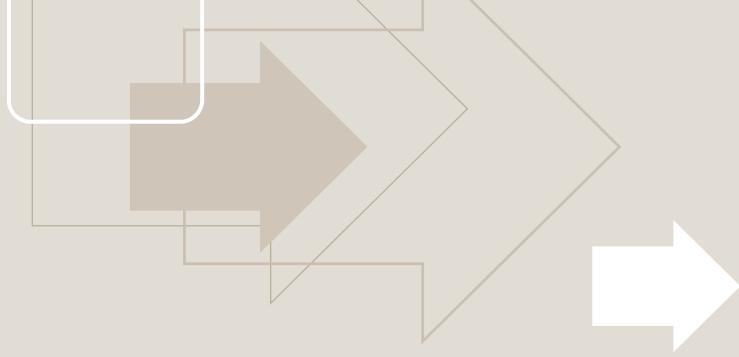
In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

- (a) The Group sold finished goods amounting to HK\$4,711,000 (2003: HK\$6,176,000) to a company of which the spouse of Ms. Wong Choi Kam, a director of the Company, is a director and controlling shareholder.

The sales to the related company were made according to the published prices and conditions offered to the major customers of the Group.

- (b) As at 30 September 2003, the Group's bank loans amounting to HK\$44,545,000 were secured by the properties of a related company and the corporate guarantees of certain related companies. These related companies were beneficially owned by the late Mr. Wong Choi Fung (a former director of the Company), Ms. Wong Choi Kam (a non-executive director of the Company) and Mr. Wong Kim Seong (a non-executive director of the Company). The pledge of properties and corporate guarantees of these related companies have been released during the year and there is no banking facility of the Group as at 30 September 2004 which is secured by the pledge of assets or corporate guarantee of any related company.

The related party transactions in respect of (a) above also constituted connected transactions as defined in the Listing Rules.



# NOTES TO FINANCIAL STATEMENTS

30 September 2004

## 34. COMPARATIVE AMOUNTS

As further explained in notes 2 and 26 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment was made and certain comparative amounts have been restated to conform with the current year's presentation.

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 January 2005.