

# Notes to the Accounts

## 1. BASIS OF PREPARATION

### (a) Preparation of accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (collectively “HK GAAP”). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Company and its subsidiaries (the “Group”) has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (b) The Acquisition

On 10 December 2003, China Electronics Corporation (“CEC”), the Company and the Company’s then holding company, Winsan International Holdings Limited, entered into a sale and purchase agreement to acquire CEC’s 65% equity interest in Shenzhen Sang Fei Consumer Communications Company Limited (“Sang Fei”), a Sino-foreign joint venture company established in the People’s Republic of China (the “PRC”) principally engaged in the manufacturing and sale of mobile telephones (the “Acquisition”), at a consideration of HK\$260,000,000. The consideration was satisfied by the issuance of 6,500,000,000 shares of the Company (the “Consideration Shares”) to CEC. The Acquisition was completed on 24 September 2004.

Under HK GAAP and as stated in the circular to the shareholders dated 21 June 2004, the Acquisition has been accounted for as a reverse acquisition since the issuance of the Consideration Shares in exchange for the 65% equity interest in Sang Fei resulted in CEC becoming the controlling shareholder of the Company. For accounting purpose, Sang Fei is regarded as the acquirer while the Company and its then subsidiaries (the “Winsan Group”) are deemed to have been acquired by Sang Fei.

## 1. BASIS OF PREPARATION (CONTINUED)

### (b) The Acquisition (continued)

In preparing these consolidated accounts, Sang Fei has applied the purchase method in accounting for the deemed acquisition of the Winsan Group. The assets and liabilities of the Winsan Group were recorded on the balance sheet of the Group at their fair value as at the date of completion of the Acquisition. In addition, goodwill arising from the Acquisition of the Winsan Group of HK\$63,075,000 (note 13) was recorded, representing the excess of the cost of acquisition deemed to be incurred by Sang Fei over the fair value of the separable assets and liabilities of the Winsan Group at the date of completion of the Acquisition.

Provision for impairment on the year-end balance of goodwill arising from the Acquisition was fully made as at 31 December 2004.

These consolidated accounts have been prepared as a continuation of the consolidated accounts of Sang Fei and accordingly:

- (i) the assets and liabilities of Sang Fei are recognised and measured at their historical carrying values prior to the completion of the Acquisition;
- (ii) the retained earnings and other equity balances recognised in these consolidated accounts are those of Sang Fei;
- (iii) the amount recognised as issued equity, which consists of share capital and share premium, has been determined by adding to the issued equity of Sang Fei immediately before the completion of the Acquisition the cost of the acquisition of the Winsan Group. However, the equity structure (i.e. the number and type of shares issued) reflects the equity structure of the Company including the Consideration Shares;
- (iv) the 2003 comparative information presented is that of Sang Fei.

### (c) Additional information

Additional information of the Winsan Group for the year ended and as at 31 December 2003 are also presented. However, they are not comparable to the basis of preparation of the accounts as set out above.

# Notes to the Accounts

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) *Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the disposal and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which as not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries of the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (a) Group accounting (continued)

#### (ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as movements in reserves.

### (b) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

#### (ii) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products acquired by the Group and probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

# Notes to the Accounts

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (b) Intangible assets (continued)

#### (iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### (iv) Impairment of intangible assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that intangible assets including goodwill are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

### (c) Fixed assets

Fixed assets, comprising leasehold improvements, plant and machinery, motor vehicles and furniture and fixtures are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their residual value over their estimated useful lives on a straight-line basis. The principal estimated useful lives are as follows:

Leasehold improvements	5 years
Plant and machinery	3 – 4 years
Motor vehicles	5 years
Furniture and fixtures	4 – 5 years

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (c) Fixed assets (*continued*)

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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

### (d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (e) Inventories

Inventories comprise raw materials, work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (f) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

# Notes to the Accounts

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposit held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdraft.

### (h) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognised a provision for repairs or replacements of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repair and replacements.

### (i) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (i) Employee benefits (continued)

#### (iii) Pension obligations

The Group operates a mandatory provident fund scheme (“MPF”) for the eligible employees in Hong Kong. The Group’s contributions to MPF are set at 5% of employees’ salaries, including basic salaries and other cash allowances and are expensed as incurred.

The principal subsidiary, Sang Fei, that operating in the PRC has to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the profit and loss account as and when incurred.

### (j) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### (k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



# Notes to the Accounts

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (k) Deferred taxation (*continued*)

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### (l) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

Dividend income is recognised when the right to receive payment is established.

### (m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (n) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

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

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (n) Segment reporting (continued)

Unallocated costs represent corporate expenses. Segment assets consist primarily of receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and intangible assets.

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

- (a) The Group is principally engaged in manufacturing and selling of mobile telephones. Revenues recognised during the year are as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Turnover		
– Sales of mobile telephones	<b>4,590,123</b>	2,862,236
Other revenues		
– Interest income	<b>916</b>	486
– Sales of samples and materials	<b>39,864</b>	18,305
	<b>40,780</b>	18,791
Total revenues	<b>4,630,903</b>	2,881,027

# Notes to the Accounts

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting format – business segments

	<i>Philips</i> branded products		Own branded products		OEM other products and other operations		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	4,149,406	2,595,274	368,665	112,792	72,052	154,170	4,590,123	2,862,236
Segment results	182,718	135,267	39,833	6,741	14,933	14,304	237,484	156,312
Unallocated revenue							916	486
Unallocated costs							(140,763)	(85,888)
Operating profit							97,637	70,910
Finance costs							(21,180)	(6,484)
Profit after finance costs							76,457	64,426
Provision for impairment on goodwill							(61,498)	–
Profit before taxation							14,959	64,426
Taxation							(8,518)	(5,186)
Profit after taxation							6,441	59,240
Minority interests							(25,704)	(20,734)
(Loss)/profit attributable to shareholders							(19,263)	38,506
Segment assets	728,981	826,312	65,876	28,981	6,951	154,786	801,808	1,010,079
Unallocated assets							858,536	370,034
Total assets							1,660,344	1,380,113
Segment liabilities	30,476	135,396	5,409	5,008	–	–	35,885	140,404
Unallocated liabilities							1,130,334	956,338
Total liabilities							1,166,219	1,096,742
Capital expenditure							82,651	45,832
Depreciation							43,081	42,511
Amortisation charge							2,756	701

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

(c) Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Mainland China	<b>2,116,578</b>	1,360,993	<b>417,336</b>	504,583		
Europe	<b>1,528,452</b>	1,067,153	<b>247,412</b>	320,445		
Asia excluding mainland China and Hong Kong	<b>199,375</b>	384,057	<b>139,989</b>	169,525		
Hong Kong	<b>745,718</b>	50,033	<b>32,655</b>	15,525		
Unallocated assets			<b>822,952</b>	370,035	<b>82,651</b>	45,832
	<b>4,590,123</b>	2,862,236	<b>1,660,344</b>	1,380,113	<b>82,651</b>	45,832

### 4. OPERATING PROFIT

Operating profit is stated after charging the following:

	2004 HK\$'000	2003 HK\$'000
Depreciation of owned fixed assets	<b>43,081</b>	42,511
Impairment of fixed assets	<b>7,359</b>	–
Amortisation of intangible assets	<b>2,756</b>	701
Loss on disposal of fixed assets	–	793
Staff costs (including directors' remuneration) (note 10)	<b>108,218</b>	59,433
Cost of inventories sold	<b>4,123,676</b>	2,584,262
Provision for inventories	<b>17,224</b>	943
Provision for warranty (note 19)	<b>5,949</b>	3,981
Operating leases of buildings	<b>14,734</b>	10,685
Research and development costs	<b>10,497</b>	5,844
Auditors' remuneration	<b>889</b>	478

## Notes to the Accounts

### 5. FINANCE COSTS

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans	<b>21,180</b>	6,484

### 6. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current taxation – PRC income tax	<b>8,518</b>	5,186

- (a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2003: Nil).
- (b) The principal subsidiary, Sang Fei, is a foreign investment production enterprise established in Shenzhen Special Economic Zone in the PRC, the prevailing enterprise income tax rate is 15%. As approved by the tax authorities in 1998, Sang Fei is entitled to exemption from income taxes for two years followed by a 50% tax reduction for three years, commencing from the year ended 31 December 2000, the first cumulative profit-making year net of losses carried forward. Enterprise income taxes have been provided at the rate of 7.5% (2003: 7.5%) for the year ended 31 December 2004.
- (c) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>14,959</b>	64,426
Calculated at a taxation rate of 15% (2003: 15%)	<b>2,244</b>	9,664
Profit earned in the tax holiday period	<b>(6,323)</b>	(4,832)
Expenses not deductible for taxation purposes	<b>12,008</b>	354
Unrecognised tax losses	<b>589</b>	–
Taxation charge	<b>8,518</b>	5,186

- (d) As at 31 December 2004, the Group did not have any significant deferred tax assets and liabilities (2003: Nil).

## 7. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholder is dealt with in the accounts of the Company to the extent of HK\$30,465,000 (2003: loss of HK\$47,590,000).

## 8. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: Nil).

## 9. (LOSS)/EARNINGS PER SHARES

Under the reverse acquisition method of accounting described in note 1(b) to the accounts, the 6,500,000,000 ordinary shares issued by the Company to acquire the 65% equity interest of Sang Fei as set out in note 21 are deemed to have been in issue on 1 January 2003 for the purpose of computing the 2003 earnings per share.

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to shareholders for the year ended 31 December 2004 of HK\$19,263,000 (2003: profit of HK\$38,506,000) and the weighted average of 7,086,556,066 (2003: 6,500,000,000 ordinary shares deemed to have been in issue on 1 January 2003) ordinary shares in issue during the year.

No diluted (loss)/earnings per share is presented as there were no potential dilutive ordinary shares in issue during the years ended 31 December 2003 and 2004.

## 10. STAFF COSTS

Staff costs, including directors' emoluments, were analysed as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Salaries, allowance and bonuses	<b>91,891</b>	49,035
Retirement benefit contributions (notes)	<b>6,423</b>	3,876
Others	<b>9,904</b>	6,522
	<b>108,218</b>	59,433

- (a) The Group operates a MPF for the eligible employees in Hong Kong. The Group's contributions to MPF are set at 5% of employees' salaries, including basic salaries and other cash allowances and are expensed as incurred.

# Notes to the Accounts

## 10. STAFF COSTS (CONTINUED)

- (b) The principal subsidiary, Sang Fei, participates in a defined contribution retirement scheme based on laws and regulations in the PRC. Each employee covered by the scheme is entitled, after their retirement from Sang Fei, to a pension equal to the basis salary of the employees as at their retirement dates in the PRC. The local government authority of the PRC is responsible for the pension liabilities to these retired employees in the PRC. Sang Fei made monthly contributions to the retirement scheme at a minimum rate of 8% (2003: 8%) of the basis salaries of employees in the PRC.

## 11. DIRECTORS' EMOLUMENTS

The emoluments payable to directors during the year were as follows:

	2004 HK\$'000	2003 HK\$'000
Directors' fees	409	360
Basic salaries, allowances or benefits in kind	2,832	2,220
Bonuses	38	–
Contributions to retirement schemes	48	39
	<b>3,327</b>	<b>2,619</b>

The emoluments fell within the following band:

	Number of individual	
	2004	2003
Emolument band		
HK\$Nil – HK\$1,000,000	10	5
HK\$1,500,001 – HK\$2,000,000	1	1
	<b>11</b>	<b>6</b>

## 11. DIRECTORS' EMOLUMENTS (CONTINUED)

The directors' fees paid to independent non-executive directors of the Company for the year ended 31 December 2004 amounted to HK\$409,000 (2003: HK\$360,000).

None of the directors of the Company has waived any emolument in respect of the year ended 31 December 2004 (2003: Nil).

## 12. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included one (2003: four) director of the Company whose emolument is reflected in the analysis presented in note 11. The emoluments paid to the remaining four individuals (2003: one individual) during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and benefits in kind	5,329	2,400
Bonuses	1,667	–
Contributions to retirement schemes	522	12
	<b>7,518</b>	<b>2,412</b>

The emoluments fell within the following band:

	Number of individuals	
	2004	2003
Emolument band		
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	–
	<b>4</b>	<b>1</b>



# Notes to the Accounts

## 13. INTANGIBLE ASSETS – GROUP

	<b>Goodwill</b>	<b>Computer software</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2004			
Opening net book amount	–	3,841	3,841
Reverse acquisition of a subsidiary	63,075	–	63,075
Additions	–	836	836
Impairment charge	(61,498)	–	(61,498)
Amortisation charge	(1,577)	(1,179)	(2,756)
Closing net book amount	–	3,498	3,498
At 31 December 2004			
Cost	63,075	10,609	73,684
Accumulated amortisation and impairment	(63,075)	(7,111)	(70,186)
Net book amount	–	3,498	3,498
At 31 December 2003			
Cost	–	9,773	9,773
Accumulated amortisation	–	(5,932)	(5,932)
Net book amount	–	3,841	3,841

## 14. FIXED ASSETS

(a) Group

	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>					
At 1 January 2004	25,695	209,414	2,146	23,701	260,956
Acquisition of subsidiaries	102	–	–	58	160
Additions	7,673	67,807	749	5,586	81,815
Disposals	(4)	(1,147)	(8)	(3,991)	(5,150)
<b>At 31 December 2004</b>	<b>33,466</b>	<b>276,074</b>	<b>2,887</b>	<b>25,354</b>	<b>337,781</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January 2004	20,882	141,592	1,114	9,346	172,934
Acquisition of subsidiaries	25	–	–	18	43
Depreciation charge	1,042	38,464	402	3,173	43,081
Impairment charge	–	3,830	58	3,471	7,359
Disposals	(1)	(1,094)	(8)	(3,935)	(5,038)
<b>At 31 December 2004</b>	<b>21,948</b>	<b>182,792</b>	<b>1,566</b>	<b>12,073</b>	<b>218,379</b>
<b>Net book value</b>					
<b>At 31 December 2004</b>	<b>11,518</b>	<b>93,282</b>	<b>1,321</b>	<b>13,281</b>	<b>119,402</b>
At 31 December 2003	4,813	67,822	1,032	14,355	88,022

# Notes to the Accounts

## 14. FIXED ASSETS (CONTINUED)

(b) Company

	<b>Motor vehicles</b> HK\$'000	<b>Furniture and fixtures</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost</b>			
At 1 January 2004	118	137	255
Additions	684	40	724
Disposals	(118)	(125)	(243)
<b>At 31 December 2004</b>	<b>684</b>	<b>52</b>	<b>736</b>
<b>Accumulated depreciation</b>			
At 1 January 2004	47	91	138
Depreciation charge	57	10	67
Disposals	(59)	(91)	(150)
<b>At 31 December 2004</b>	<b>45</b>	<b>10</b>	<b>55</b>
<b>Net book value</b>			
<b>At 31 December 2004</b>	<b>639</b>	<b>42</b>	<b>681</b>
At 31 December 2003	71	46	117

## 15. INVESTMENTS IN SUBSIDIARIES – COMPANY

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Investments in subsidiaries – unlisted shares, at cost	<b>260,000</b>	777,006
Amounts due from subsidiaries	<b>639</b>	639
	<b>260,639</b>	777,645
Less: Provision	–	(777,202)
	<b>260,639</b>	443

Particulars of the subsidiaries of the Group as at 31 December 2004 are set out in note 28 to the accounts. The amounts due from subsidiaries are unsecured, interest free and are not requested to pay within one year.

## 16. INVENTORIES – GROUP

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>234,231</b>	178,851
Work in progress	<b>109,726</b>	45,991
Finished goods	<b>62,830</b>	31,381
	<b>406,787</b>	256,223
Less: Provision for impairment	<b>(18,167)</b>	(1,496)
	<b>388,620</b>	254,727

At 31 December 2004, the carrying amount of inventories that are carried at net realisable value amounted to zero (2003: Nil).

# Notes to the Accounts

## 17. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables	(a)	801,085	945,548	–	–
Notes receivable	(b)	3,255	27,020	–	–
Other receivables due from related parties		25,240	16,219	–	–
Prepayments and deposits		27,867	6,306	791	1,706
Value-added tax refundable		65,690	8,634	–	–
Other receivables		8,254	6,352	9	–
		<b>931,391</b>	1,010,079	<b>800</b>	1,706

- (a) The credit terms of the Group generally range from 30 to 60 days. At 31 December 2004, the ageing analysis of the Group's trade receivables was as follows:–

	2004 HK\$'000	2003 HK\$'000
Current to 30 days	798,907	940,798
31 – 60 days	25	2,480
Over 60 days	2,153	2,270
	<b>801,085</b>	945,548

Included in the balance were trade receivables from related parties of HK\$729,925,000 (2003: HK\$830,962,000). About 91% (2003: 95%) of the trade receivables from related parties as at 31 December 2004 was covered by bank issued guarantee documents.

- (b) The balance represents bank acceptance notes with maturity period within six months. At 31 December 2004, none of the notes receivable is from related parties (2003: HK\$10,984,000).

## 18. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	640,669	682,775	–	2,490
Other payables due to related parties	9,079	38,887	–	–
Accrued expenses	17,792	19,049	1,899	230
Advance from customers	44,037	3,199	–	–
Other payables	56,660	39,736	–	–
	<b>768,237</b>	783,646	<b>1,899</b>	2,720

At 31 December 2004, the ageing analysis of the Group's trade payables was as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current to 30 days	578,606	678,632	–	2,490
31– 60 days	27,257	1,471	–	–
Over 60 days	34,806	2,672	–	–
	<b>640,669</b>	682,775	–	2,490

Included in the balance were trade payables to related parties of HK\$46,358,000 (2003: HK\$94,337,000).

## Notes to the Accounts

### 19. WARRANTY PROVISION – GROUP

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
At beginning of the year	<b>1,172</b>	102
Additional provision charged to profit and loss account	<b>5,949</b>	3,981
Less: amount utilised	<b>(4,907)</b>	(2,911)
	<hr/>	<hr/>
At end of the year	<b>2,214</b>	1,172

The Group gives 15-month warranties on products distributed by Sang Fei for end users in the PRC market and undertakes to repair and replace items that fail to operate satisfactorily. Provision has been recognised for expected warranty claims based on past experience of the level of repairs and returns.

### 20. SHORT-TERM BANK LOANS, UNSECURED – GROUP

The bank loans are unsecured, repayable within one year and bear interest at the average borrowing rate of 4.438% (2003: 4.536%) per annum.

### 21. ISSUED EQUITY/SHARE CAPITAL

	<b>Number of</b>	<b>Group</b>
	<b>shares</b>	<b>Issued equity</b>
		HK\$'000
<b>At 31 December 2004</b>	<b>8,668,480,000</b>	<b>373,750</b>

- (a) By adopting reverse acquisition method of accounting as described in note 1(b), the amount of issued equity of the Group which includes share capital and share premium in the consolidated balance sheet represents the amount of issued equity of Sang Fei, the cost of the Acquisition and the issuance of new shares as described in note (b)(ii) below.

## 21. ISSUED EQUITY/SHARE CAPITAL (CONTINUED)

(b) The following information is provided to trace the movements in the share capital of the Company:

	Note	Company			
		Number of shares		Amounts	
		2004	2003	2004	2003
				HK\$'000	HK\$'000
Ordinary share of HK\$0.01					
Authorised:					
At 1 January and 31 December		<b>30,000,000,000</b>	30,000,000,000	<b>300,000</b>	300,000
Issued and fully paid:					
At 1 January		<b>1,558,480,000</b>	1,558,480,000	<b>15,585</b>	15,585
Issue of Consideration Shares	(i)	<b>6,500,000,000</b>	–	<b>65,000</b>	–
Issue of shares	(ii)	<b>610,000,000</b>	–	<b>6,100</b>	–
At 31 December		<b>8,668,480,000</b>	1,558,480,000	<b>86,685</b>	15,585

(i) On 24 September 2004, 6,500,000,000 new ordinary shares of HK\$0.01 each were issued to CEC for the acquisition of the 65% equity interest in Sang Fei (note 1(b)).

(ii) On 24 September 2004, 420,000,000 and 190,000,000 new ordinary shares of HK\$0.01 each were issued to two respective new shareholders in cash for a total of HK\$142,130,000.

As at 31 December 2004, there was no share option outstanding under the Share Option Scheme of the Company.



# Notes to the Accounts

## 22. RESERVES

### (a) Group

	<b>Capital reserves</b>	<b>Surplus reserves</b>	<b>Retained earnings/ (accumulated losses)</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note (a))	(note (b))		
At 1 January 2004	(1,806)	14,906	1,654	14,754
Appropriation from retained earnings	–	6,104	(6,104)	–
Loss for the year	–	–	(19,263)	(19,263)
<b>At 31 December 2004</b>	<b>(1,806)</b>	<b>21,010</b>	<b>(23,713)</b>	<b>(4,509)</b>
At 1 January 2003	(1,806)	29,810	(36,852)	(8,848)
Capitalisation of reserve	–	(14,904)	–	(14,904)
Profit for the year	–	–	38,506	38,506
At 31 December 2003	(1,806)	14,906	1,654	14,754

### (a) Capital reserves

Capital reserves represent the exchange differences arising from paid-in capital paid by foreign currencies in Sang Fei.

## 22. RESERVES (CONTINUED)

### (a) Group (continued)

#### (b) Surplus reserves

In accordance with the “Laws of the PRC on Joint Ventures Using Chinese and Foreign Investment” and Sang Fei’s Articles of Association, appropriations of the reserve fund and the enterprise expansion fund from profit after taxation have to be made prior to profit distribution to the equity owners. The percentage of appropriation of reserve fund and the enterprise expansion fund is approved by the board of directors.

Upon approval from the board of directors, the reserve fund can be used to offset against accumulated losses or to increase capital while the enterprise expansion fund can be used to expand production and to increase capital.

### (b) Company

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	–	140,263	(184,905)	(44,642)
Issue of shares	331,030	–	–	331,030
Transaction costs paid	(5,975)	–	–	(5,975)
Profit for the year	–	–	30,465	30,465
<b>At 31 December 2004</b>	<b>325,055</b>	<b>140,263</b>	<b>(154,440)</b>	<b>310,878</b>
At 1 January 2003	–	140,263	(137,315)	2,948
Loss for the year	–	–	(47,590)	(47,590)
At 31 December 2003	–	140,263	(184,905)	(44,642)

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders in certain circumstances as specified in Section 54 thereof.

# Notes to the Accounts

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Operating profit	<b>97,637</b>	70,910
Depreciation of owned fixed assets	<b>43,081</b>	42,511
Impairment of fixed assets	<b>7,359</b>	–
Amortisation of intangible assets	<b>2,756</b>	701
Loss on disposal of fixed assets	–	793
Provision for inventories	<b>17,224</b>	943
Interest income	<b>(916)</b>	(486)
<hr/>		
Operating profit before working capital change	<b>167,141</b>	115,372
Increase in inventories	<b>(151,117)</b>	(190,448)
Decrease/(increase) in trade and other receivables	<b>84,756</b>	(538,802)
(Decrease)/increase in trade and other payables	<b>(16,246)</b>	493,243
Increase in warranty provision	<b>1,042</b>	1,070
<hr/>		
Net cash inflow/(outflow) from operations	<b>85,576</b>	(119,565)

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the year

	<b>Issued equity</b>	<b>Minority interests</b>	<b>Bank loans</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	154,214	78,275	141,429
Capital injection	319	171	–
Capital transferring from surplus reserve	14,904	–	–
New loans raised	–	–	309,259
Repayment of loans borrowed	–	–	(141,429)
Minority interests' share of profit	–	20,734	–
<hr/>			
At 31 December 2003	169,437	99,180	309,259
Shares issued	142,130	–	–
Arising from reverse acquisition	62,183	–	–
New loans raised	–	–	1,470,621
Repayment of loans borrowed	–	–	(1,387,649)
Minority interests' share of profit	–	25,704	–
<hr/>			
<b>At 31 December 2004</b>	<b>373,750</b>	<b>124,884</b>	<b>392,231</b>

# Notes to the Accounts

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (c) Cash generated from the Acquisition

The Acquisition as described in note 1(b) to the accounts:

	<b>2004</b>
	HK\$'000
Net assets acquired:	
Fixed assets	117
Trade and other receivables	6,068
Trade and other payables	(1,102)
	<hr/>
	5,083
Goodwill arising on consolidation	63,075
	<hr/>
	68,158
	<hr/>
Satisfied by:	
Deemed consideration paid by Sang Fei	62,183
Transaction costs paid	5,975
	<hr/>
	68,158
	<hr/>
Net cash outflow on the Acquisition	5,975
	<hr/>

Contribution to cash flow from the Acquisition of Winson Group is minimal.

## 24. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of land and buildings as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	24,676	14,807	175	–
In the second to fifth year	37,987	32,252	131	–
	<b>62,663</b>	47,059	<b>306</b>	–

## 25. CAPITAL COMMITMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Purchase of fixed assets and computer software				
Contracted but not provided for	8,717	13,268	–	–

## 26. CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities outstanding as at 31 December 2003 and 2004.

# Notes to the Accounts

## 27. RELATED PARTY TRANSACTIONS

Significant related party transactions of the Group's business are as follows:

During the year, the Group entered into transactions with companies under common control of:

- CEC, the ultimate holding company. These companies are denoted by \* below;
- Koninklijke Philips Electronics N.V. (“KPE”) (a company incorporated in Holland), the ultimate holding company of the minority shareholder with significant influence on operation of the principal subsidiary, Sang Fei. These companies are denoted by # below.

### (a) Sales of products, samples and materials

		Group	
		2004	2003
		HK\$'000	HK\$'000
<b>Sales of products:</b>			
Philips Electronics (Shanghai) Co., Ltd.	#	1,735,539	1,092,279
Philips France S.A.S.	#	1,525,193	1,067,153
Philips Electronics Singapore Pte. Ltd.	#	719,537	384,056
Philips Electronics Hong Kong Ltd.	#	169,136	50,033
Shenzhen SED Coalition Electronics Co., Ltd.	*	25,550	90,037
CEC Wireless R&D Ltd.	*	899	–
<b>Sales of samples and materials</b>			
Philips Electronics (Shanghai) Co., Ltd.	#	12,429	3,413
Shenzhen SED Industry Co., Ltd.	*	17,513	–
Shenzhen SED Coalition Electronics Co., Ltd.	*	–	4,715
CEC Group, others	*	76	–
Philips Group, others	#	293	–

Members of KPE and its subsidiaries (the “Philips Group”) are the major customers of the Group. Sales to the Philips Group were based on a long-term agreement in which the Philips Group was entitled to purchase goods from the Group at a price determined using a “cost plus” basis.

One of the distributors of the Group's mobile telephones is a member of CEC and its group companies (the “CEC Group”). Sales to the CEC Group were based on a business service agreement and were carried out on commercial terms and conditions and at market prices.

## 27. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Other transactions

		Group	
	Note	2004 HK\$'000	2003 HK\$'000
<b>Purchases of raw materials</b>			
	(i)		
Philips France S.A.S.	#	764	17,348
Philips Electronics Hong Kong Ltd.	#	1,033,030	841,979
Oesterrichische Philips	#	–	6,309
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	8,052	–
Philips Group, others	#	407	–
<b>Corporate services:</b>			
	(ii)		
Philips Electronics Hong Kong Ltd.	#	15,535	14,492
<b>Processing services:</b>			
	(iii)		
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	5,572	2,084
Shenzhen SED Industry Co., Ltd.	*	792	–
<b>Fitment and decoration services:</b>			
	(iv)		
Shenzhen SED Fitment & Decoration Co., Ltd.	*	5,065	2,865
<b>Canteen services:</b>			
	(v)		
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	6,459	3,341
<b>Repair and maintenance services:</b>			
	(vi)		
Shenzhen SED ARC Co., Ltd.	*	1,175	2,190
<b>Rental:</b>			
	(vii)		
Shenzhen SED Industry Co., Ltd.	*	4,996	5,539
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	1,014	–
<b>Purchases of fixed assets:</b>			
	(viii)		
Assembleon Hong Kong Ltd.	#	19,649	–
Philips France S.A.S.	#	–	3,291
CEC Wireless R&D Ltd.	*	–	3,395



# Notes to the Accounts

## 27. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Other transactions (continued)

- (i) Members of the Philips Group are the major suppliers of raw materials. Purchases of raw materials from the Philips Group were based on a long term agreement and were carried out in the ordinary course of business and on commercial terms and conditions.

The Group from time to time purchases raw materials from members of the CEC Group. Purchases of raw materials from the CEC Group were based on a business service agreement and were carried out in the ordinary course of business and on commercial terms and conditions.

- (ii) Members of the Philips Group from time to time provide certain in-house treasury, fiscal, legal services and non product related services to the Group. The corporate services are based on service agreements entered into by the relevant parties and the Group and were carried out on commercial terms and conditions.

- (iii) The Group secured dedicated processing services of SMA production lines from members of the CEC Group. The processing services were based on service contracts entered into by the relevant parties and the Group and were carried out on commercial terms and conditions.

- (iv) The Group engaged members of the CEC Group to undertake renovation works in connection with the expansion of the Group's production premises. The fitment and decoration services were based on a business service agreement and were on commercial terms and conditions.

- (v) Shenzhen Sang Da Baili Electronics Co., Ltd. provides canteen services to the production staff of the Group. The canteen services were based on a business service agreement and the fee were calculated by reference to actual consumption and an agreed fixed premium and were on commercial terms and conditions.

- (vi) The Group engaged Shenzhen SED ARC Co., Ltd. for after sales product repair and maintenance services in respect of its own-branded products. The repair and maintenance services were based on a business service agreement and carried out on commercial terms and conditions.

- (vii) The production facilities and some of the staff quarters of the Group were located within an industrial complex owned by members of the CEC Group. The rentals were based on lease agreements entered into by the relevant parties and the Group and were calculated on commercial terms and conditions.

- (viii) Purchases of fixed assets were based on agreements entered into by the related parties and the Group and were carried out on commercial terms and conditions.

## 27. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balance arising from sales and other transactions

		Group	
		2004	2003
		HK\$'000	HK\$'000
<b>Receivables from related parties:</b>			
Philips Electronics (Shanghai) Co., Ltd.	#	329,251	320,457
Philips France S.A.S.	#	245,932	320,445
Philips Electronics Singapore Pte. Ltd.	#	139,989	169,525
Philips Electronics Hong Kong Ltd.	#	29,531	15,884
Shenzhen SED Industry Co., Ltd.	*	7,026	1,634
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	1,327	–
Shenzhen SED Coalition Electronics Co., Ltd.	*	–	28,981
<b>Payables to related parties:</b>			
Philips Electronics Hong Kong Ltd.	#	35,887	99,370
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	5,661	–
Philips France S.A.S.	#	4,622	8,764
Philips Electronics Singapore Pte. Ltd.	#	2,577	4,402
Philips (China) Investment Co., Ltd.	#	3	13,743

The receivables/payables from/to related parties were interest-free, unsecured and settled in accordance with terms of the agreements and generally within one year. All sales of products made to the Philips Group in 2003 and 2004 were covered by guarantee documentation issued by banks.

# Notes to the Accounts

## 28. SUBSIDIARIES

During the year, Winsan Group disposed of all its then subsidiaries which had no material business operations.

As at 31 December 2004, the Company held interest in the following principal subsidiaries which, in the opinion of the directors, were significant to the results of the year and/or formed a substantial portion of the net assets of the Group.

<b>Company</b>	<b>Place of incorporation and kind of legal entity</b>	<b>Place of operation and principal activities</b>	<b>Particulars of issued/registered capital</b>	<b>Effective interest held</b>
Indirectly held:				
Shenzhen Sang Fei Consumer Communications Company Limited	PRC, a Sino-foreign equity joint venture company	PRC, manufacture and sale of mobile telephones	Registered capital of RMB276,470,000	65%
China Electronics Corporation Management Limited	Hong Kong, limited company	Hong Kong, provision of group management services	2 ordinary shares of HK\$1 each	100%

## 29. ULTIMATE HOLDING COMPANY

The directors regard China Electronics Corporation, a state-owned enterprise established under the laws of PRC, as being the ultimate holding company.

## 30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 18 March 2005.