

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 1. GENERAL

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

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in note 36.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRS(s)") which are effective for accounting periods beginning on or after 1st January, 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Company has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

### Basis of consolidation

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

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

### Turnover

Turnover represents the amounts received and receivable for goods supplied to outside customers, less returns and discounts during the year.

### Revenue recognition

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

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

Commission income is recognised on an accrual basis when the Group's entitlement to payment has been established.

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Investment properties

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment properties (Continued)

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

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

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

### Property, plant and equipment

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

Certain of the Group's leasehold land and buildings were revalued at 31st December, 1994. The surplus arising on revaluation of these properties was credited to asset revaluation reserve. The Group has adopted the transitional relief provided by paragraph 80 of Statement of Standard Accounting Practice ("SSAP") 17 (Revised) "Property, Plant and Equipment" issued by the HKICPA from the requirement to make revaluations on a regular basis of the Group's leasehold properties and, accordingly, no further revaluation of these properties will be carried out. Any future impairment losses recognised in respect of these properties will be charged to the consolidated income statement to the extent that it exceeds the surplus, if any, held in asset revaluation reserve relating to previous revaluation of the particular property. On the subsequent disposal or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives using the straight line method, as follows:

Land held on long and medium term leases	Over the term of the relevant lease
Buildings	Over the shorter of the term of the lease, or 25 years
Leasehold improvements	Over the term of the relevant lease
Others	5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Goodwill**

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

Goodwill is capitalised and amortised on a straight line basis over its useful economic life and is presented separately in the balance sheet.

### **Negative goodwill**

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

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

### **Investments in subsidiaries**

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

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

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

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

### Club memberships

Club memberships are stated at cost, as reduced by any identified impairment loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method for electronic products and the weighted average cost method for other inventories.

### Assets held under finance leases

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

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the terms of the relevant lease.

### Retirement benefit costs

Payments to defined contribution retirement benefits scheme are charged as an expense as they fall due.

### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group's operations are organised into two operating divisions namely distribution of electronic goods and distribution of sports products. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2004

	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>			
External sales	2,313,346	93,742	2,407,088
<b>RESULT</b>			
Segment result	62,505	8,296	70,801
Interest income			268
Unallocated corporate expenses			(9,093)
Release of negative goodwill	2,035	-	2,035
Unallocated corporate income			1,201
Profit from operations			65,212
Finance costs			(12,867)
Share of results of associates	(89)	-	(89)
Profit before taxation			52,256
Taxation			(7,929)
Profit before minority interests			44,327
Minority interests			(9,219)
Profit for the year			35,108

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

2004 (Continued)

	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Consolidated HK\$'000
<b>BALANCE SHEET</b>			
<b>ASSETS</b>			
Segment assets	811,006	35,404	846,410
Interests in associates	472	-	472
Unallocated corporate assets			136,760
<b>Total assets</b>			<b>983,642</b>
<b>LIABILITIES</b>			
Segment liabilities	239,533	9,405	248,938
Unallocated corporate liabilities			385,480
<b>Total liabilities</b>			<b>634,418</b>

	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>OTHER INFORMATION</b>				
Capital additions	1,572	2,169	2,668	6,409
Amortisation of goodwill	302	1,369	-	1,671
Depreciation and amortisation of property, plant and equipment	5,028	139	3,395	8,562
Loss on disposal of property, plant and equipment	6	-	-	6
Unrealised holding loss on other investments	-	-	1,176	1,176

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

2003

	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>			
External sales	1,761,894	86,413	1,848,307
<b>RESULT</b>			
Segment result	42,021	7,502	49,523
Interest income			969
Surplus on revaluation of investment properties			1,000
Impairment loss on investment securities			(1,991)
Unallocated corporate expenses			(8,810)
Unallocated corporate income			2,091
Profit from operations			42,782
Finance costs			(10,110)
Share of results of associates	(259)	-	(259)
Profit before taxation			32,413
Taxation			(5,335)
Profit before minority interests			27,078
Minority interests			(3,551)
Profit for the year			23,527
<b>BALANCE SHEET</b>			
<b>ASSETS</b>			
Segment assets	721,704	39,382	761,086
Interests in associates	561	-	561
Unallocated corporate assets			139,779
Total assets			901,426
<b>LIABILITIES</b>			
Segment liabilities	215,509	7,594	223,103
Unallocated corporate liabilities			362,646
Total liabilities			585,749



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

2003 (Continued)

	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Others HK\$'000	Consolidated HK\$'000
OTHER INFORMATION				
Capital additions	2,847	240	7,057	10,144
Amortisation of goodwill	302	1,369	-	1,671
Depreciation and amortisation of property, plant and equipment	4,804	87	3,944	8,835
Loss (gain) on disposal of property, plant and equipment	196	(14)	-	182

### Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC") and Taiwan. The Group's distribution of electronic goods is carried out in Hong Kong, the PRC and Taiwan. Distribution of sports products is carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2004 HK\$'000	2003 HK\$'000
Hong Kong	678,507	717,394
PRC	1,359,608	827,290
Taiwan	339,878	276,860
Others	29,095	26,763
	<b>2,407,088</b>	1,848,307

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	554,520	572,943	5,556	9,380
PRC	311,656	172,104	388	742
Taiwan	87,010	146,381	-	-
Others	30,291	9,831	465	22
	<b>983,477</b>	901,259	<b>6,409</b>	10,144

## 5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remunerations		
- basic salaries and allowances	35,534	30,952
- performance related incentive payments	1,616	1,027
- retirement benefits scheme contributions, net of forfeited contributions of HK\$106,000 (2003: HK\$145,000)	1,245	1,149
	<b>38,395</b>	33,128
Amortisation of goodwill (included in administrative expenses)	1,671	1,671
Auditors' remuneration	836	870
Depreciation and amortisation of property, plant and equipment		
- owned assets	8,374	8,719
- assets held under finance leases	188	116
Loss on disposal of property, plant and equipment	6	182
Unrealised holding loss on other investments	1,176	-
and after crediting:		
Release of negative goodwill to other operating income	2,035	-
Rental income from properties, net of outgoings of HK\$28,000 (2003: HK\$13,000)	968	1,587

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 6. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
- bank and other borrowings wholly repayable within five years	12,698	10,056
- bank borrowings not wholly repayable within five years	123	22
- obligations under finance leases	46	32
	<b>12,867</b>	10,110

## 7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' REMUNERATIONS

Particulars of the directors' and the five highest paid individuals' remunerations were as follows:

### (a) Directors' remunerations

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive directors	74	-
Non-executive director	-	-
Independent non-executive directors	100	140
Other emoluments:		
Executive directors		
- basic salaries and allowances	4,413	3,833
- performance related incentive payments	1,616	356
- retirement benefits scheme contributions	125	74
Total emoluments	<b>6,328</b>	4,403

The directors' remunerations were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	9	8
HK\$3,500,001 to HK\$4,000,000	-	1
HK\$4,500,001 to HK\$5,000,000	1	-

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' REMUNERATIONS (Continued)

### (b) Employees' remunerations

Of the five highest paid individuals in the Group, one (2003: one) is a director of the Company whose remunerations are set out in (a) above. The remuneration of the remaining four (2003: four) individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries and allowances	2,778	2,456
Performance related incentive payments	750	214
Retirement benefits scheme contributions	112	101
	<b>3,640</b>	<b>2,771</b>

The remuneration of the remaining four (2003: four) highest paid individuals were within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	2	-

During the years ended 31st December, 2004 and 2003, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31st December, 2004 and 2003, no directors waived any emoluments.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 8. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	8,059	5,453
Overprovision in prior years	(327)	(363)
	<b>7,732</b>	5,090
Deferred taxation (note 28)		
Current year	197	(13)
Attributable to a change in tax rate in Hong Kong	-	258
	<b>197</b>	245
	<b>7,929</b>	5,335

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

The tax charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	52,256	32,413
Tax at Hong Kong Profits Tax rate of 17.5%	9,145	5,672
Tax effect of expenses not deductible for tax purpose	851	1,115
Tax effect of income not taxable for tax purpose	(742)	(407)
Overprovision in prior years	(327)	(363)
Tax effect of tax losses/other deferred tax assets not recognised	941	1,033
Utilisation of tax losses/other deferred tax assets previously not recognised	(871)	(1,463)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	-	258
Effect of tax exemption granted to Macau subsidiaries	(1,068)	(510)
Tax charge for the year	<b>7,929</b>	5,335

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend of HK1.8 cents (2003: HK1.0 cent) per share	4,366	2,301
2003 final dividend of HK2.0 cents per share (2002: Nil)	4,611	-
	<b>8,977</b>	2,301

A final dividend of HK4.0 cents (2003: HK2.0 cents) per share has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
- profit for the year	35,108	23,527
	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	234,503,562	230,140,720
Effect of dilutive potential ordinary shares in respect of share options	8,034	34,071
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>234,511,596</b>	230,174,791

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 11. INVESTMENT PROPERTIES

### THE GROUP

HK\$'000

#### VALUATION

At 1st January, 2004 and 31st December, 2004 58,000

At 31st December, 2004, the investment properties of the Group were revalued by an independent firm of professional property valuers, Chesterton Petty Limited, on an open market value basis at HK\$58,000,000. The revaluation did not give rise to any surplus or deficit for the year.

The investment properties are held under medium term leases in Hong Kong and rented out under operating leases.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improve- ments	Furniture and fixtures	Office equipment	Motor vehicles and vessel	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2004	86,816	17,808	10,867	11,054	12,397	138,942
Additions	2,175	756	1,091	2,016	371	6,409
Disposals	-	-	(15)	(4)	-	(19)
At 31st December, 2004	88,991	18,564	11,943	13,066	12,768	145,332
Comprising:						
At cost	43,641	18,564	11,943	13,066	12,768	99,982
At valuation - 1994	45,350	-	-	-	-	45,350
	88,991	18,564	11,943	13,066	12,768	145,332
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	19,372	9,976	8,980	8,206	9,812	56,346
Provided for the year	2,575	2,843	830	1,435	879	8,562
Eliminated on disposals	-	-	(6)	(1)	-	(7)
At 31st December, 2004	21,947	12,819	9,804	9,640	10,691	64,901
NET BOOK VALUES						
At 31st December, 2004	67,044	5,745	2,139	3,426	2,077	80,431
At 31st December, 2003	67,444	7,832	1,887	2,848	2,585	82,596

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of leasehold land and buildings held by the Group at the balance sheet date comprises:

	2004 HK\$'000	2003 HK\$'000
Held in Hong Kong under medium term leases	57,917	58,823
Held in Hong Kong under long term lease	700	-
Held in the PRC under long leases	8,427	8,621
	<b>67,044</b>	<b>67,444</b>

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation at HK\$55,456,000 (2003: HK\$54,682,000).

At 31st December, 2004, the net book value of motor vehicles and vessel included an amount of HK\$630,000 (2003: HK\$646,000) in respect of assets held under finance leases.

## 13. GOODWILL

	THE GROUP HK\$'000
COST	
At 1st January, 2004 and 31st December, 2004	58,314
AMORTISATION	
At 1st January, 2004	55,274
Provided for the year	1,671
At 31st December, 2004	56,945
NET BOOK VALUES	
At 31st December, 2004	1,369
At 31st December, 2003	3,040

The amortisation period adopted for goodwill ranging from 2 to 10 years.



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 14. NEGATIVE GOODWILL

	<b>THE GROUP</b>
	HK\$'000
GROSS AMOUNT	
Arising on acquisition of additional interests in subsidiaries and balance at 31st December, 2004	2,035
RELEASED TO INCOME	
Released for the year	2,035
CARRYING AMOUNT	
At 31st December, 2004	-

The negative goodwill arose on the Group's acquisition of additional interests in RDL Electronic Company Limited ("RDL Electronic") and RDL Electronic (Macao Commercial Offshore) Limited ("RDL Macao") in September 2004 represents a discount on acquisition.

## 15. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	HK\$'000	HK\$'000
Unlisted shares ( <i>Note</i> )	92,577	92,577
Amounts due from subsidiaries	375,432	396,258
Less: Impairment loss and allowance	(190,000)	(190,000)
	<b>278,009</b>	298,835

*Note:* The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the group reorganisation in 1994.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

Particulars of the Company's principal subsidiaries at 31st December, 2004 are set out in note 36.

# Notes to the Financial Statements

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## 16. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets of associates	472	561

Particulars of the Group's associates at 31st December, 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of shares held	Proportion of issued share capital held by the Group %	Principal activities
Bestime Technology Development Limited	Incorporated	Hong Kong	Ordinary	30	Trading of electronic products
Now Electron Inc.	Incorporated	Korea	Ordinary	48	Trading of electronic products
Ocean Bright Technology Limited	Incorporated	Hong Kong	Ordinary	30	Trading of electronic products

# Notes to the Financial Statements

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## 17. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>THE GROUP</b>						
Equity securities:						
Listed in Hong Kong	-	-	2,602	-	2,602	-
Listed overseas	1,516	1,516	-	-	1,516	1,516
Unlisted in Hong Kong	600	600	2,865	-	3,465	600
	<b>2,116</b>	2,116	<b>5,467</b>	-	<b>7,583</b>	2,116
Market value of listed securities	291	221	2,602	-	2,893	221
Carrying amount analysed for reporting purposes as:						
Current	-	-	2,602	-	2,602	-
Non-current	2,116	2,116	2,865	-	4,981	2,116
	<b>2,116</b>	2,116	<b>5,467</b>	-	<b>7,583</b>	2,116

## 18. CLUB MEMBERSHIPS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Club memberships, at cost		
Hong Kong	1,447	1,447
Outside Hong Kong	3,012	3,012
	<b>4,459</b>	4,459

The directors are of the opinion that the club memberships are worth at least their carrying amounts.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 19. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Finished goods	255,161	217,558

At 31st December, 2004, finished goods of HK\$4,904,000 (2003: HK\$10,396,000) are carried at net realisable values.

## 20. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods ranging from 30 days to 120 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$380,892,000 (2003: HK\$401,223,000) which are analysed by due date as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current	225,507	197,083
Within 30 days	65,427	102,069
More than 30 days and within 60 days	27,155	36,155
More than 60 days and within 90 days	11,190	11,393
More than 90 days	51,613	54,523
	380,892	401,223

## 21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$160,259,000 (2003: HK\$154,453,000) which are analysed by due date as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current	102,840	61,061
Within 30 days	37,164	77,705
More than 30 days and within 60 days	16,521	9,823
More than 60 days and within 90 days	1,830	1,132
More than 90 days	1,904	4,732
	160,259	154,453

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	277	230	219	192
In the second to fifth year inclusive	392	488	356	413
	669	718		
Less: future finance charges	(94)	(113)		
Present value of finance leases	575	605	575	605
Less: Amount due within one year shown under current liabilities			(219)	(192)
Amount due after one year			356	413

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is four years. The average effective borrowing rate is 3%. The leases are paid on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 23. BANK AND OTHER BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank and other borrowings comprise:		
Bank loans	139,486	118,603
Bank import loans	230,453	221,196
Bank overdrafts	219	11,508
Other loan ( <i>Note</i> )	3,000	3,000
	<b>373,158</b>	354,307
Analysed as:		
Secured	354,818	319,601
Unsecured	18,340	34,706
	<b>373,158</b>	354,307

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The bank and other borrowings are repayable as follows:		
Within one year or on demand	329,549	348,386
More than one year, but not exceeding two years	10,905	1,213
More than two years, but not exceeding five years	30,748	2,275
More than five years	1,956	2,433
	<b>373,158</b>	354,307
Less: Amount due within one year shown under current liabilities	<b>(329,549)</b>	(348,386)
Amount due after one year	<b>43,609</b>	5,921

*Note:* The loan is unsecured and carries interest at 7.25% (2003: 7.25%) per annum.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 24. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	1,454,000,000	145,400
Issued and fully paid:		
At 1st January, 2003 and 31st December, 2003	230,140,720	23,014
Exercise of share options	400,000	40
Exercise of convertible notes ( <i>Note</i> )	12,000,000	1,200
At 31st December, 2004	242,540,720	24,254

	Number of non-redeemable convertible preference shares	Amount HK\$'000
Non-redeemable convertible preference shares of HK\$0.10 each		
Authorised:		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	46,000,000	4,600
Issued and fully paid:		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	-	-

*Note:* On 18th May, 2004, the Group entered into a conditional sale and purchase agreement with certain directors of RDL Electronic and RDL Macao to purchase the remaining 30% issued share capital of each of RDL Electronic and RDL Macao at a total consideration of HK\$12,000,000, which was settled by the issue of 1% non-redeemable convertible notes with principal amounts of HK\$12,000,000 (the "Convertible Notes").

The acquisition was completed on 1st September, 2004. On the same date, the Convertible Notes were fully converted into ordinary shares of HK\$ 0.10 each of the Company at conversion price of HK\$1.00 each. The new issued shares rank pari passu with the existing shares in all respects.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 25. SHARE OPTION SCHEMES

- (a) Pursuant to a resolution passed on 17th September, 1994, the Company adopted a share option scheme (the "Initial Share Option Scheme") for recognition of past services contributed by the eligible directors and employees, and expired on 16th September, 2004. Under the Initial Share Option Scheme, the Board of Directors of the Company may at their discretion grant options to directors and full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company.

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), terminated the Initial Share Option Scheme and adopted a new share option scheme, as approved by the shareholders of the Company at a special general meeting held on 28th June, 2002 (the "New Share Option Scheme") for recognition of past services contributed by, and giving incentives to the eligible directors and employees.

Upon termination of the Initial Share Option Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the Initial Share Option Scheme shall remain in force.

At 31st December, 2003, the number of shares in respect of which options had been granted and remained outstanding under the Initial Share Option Scheme was 1,400,000, representing 0.6% of the shares of the Company in issue at that date. The maximum number of shares in respect of which options may be granted under the Initial Share Option Scheme was not permitted to exceed 10% of the issued share capital of the Company at any point in time. The number of shares in respect of which options may be granted to any individual at the grant date was not permitted to exceed 25% of the number of shares issued and issuable under the Initial Share Option Scheme. All the options granted under the Initial Share Option Scheme were either exercised or expired during the current year.

Options granted must be taken up within 28 days of the date of grant. No consideration is payable on the grant of an option. Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercisable period. The exercise price was determined by the directors of the Company, and will not be less than the nominal value of the shares of the Company nor 80% of the average closing price of the shares for the five trading days immediately preceding the date of grant.



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 25. SHARE OPTION SCHEMES (Continued)

The following table discloses details of the Company's options under the Initial Share Option Scheme held by employees (including directors) and movements in such holdings during the year:

Date of grant	Exercise price per share HK\$	Vesting period	Exercisable period	Outstanding at 1.1.2004	Exercised during the year	Expired during the year	Outstanding at 31.12.2004
29.9.1997	3.80	-	29.9.1997 - 16.9.2004	1,000,000	-	(1,000,000)	-
4.5.2000	0.59	4.5.2000 - 3.5.2002	4.5.2002 - 3.5.2004	200,000	(200,000)	-	-
17.6.2000	0.57	17.6.2000 - 16.6.2002	17.6.2002 - 16.6.2004	200,000	(200,000)	-	-
				<b>1,400,000</b>	<b>(400,000)</b>	<b>(1,000,000)</b>	<b>-</b>

  

Date of grant	Exercise price per share HK\$	Vesting period	Exercisable period	Outstanding at 1.1.2003	Exercised during the year	Expired during the year	Outstanding at 31.12.2003
29.9.1997	3.80	-	29.9.1997 - 16.9.2004	1,000,000	-	-	1,000,000
4.5.2000	0.59	4.5.2000 - 3.5.2002	4.5.2002 - 3.5.2004	200,000	-	-	200,000
17.6.2000	0.57	17.6.2000 - 16.6.2002	17.6.2002 - 16.6.2004	200,000	-	-	200,000
14.6.2001	0.49	-	14.6.2001 - 13.6.2003	800,000	-	(800,000)	-
				<b>2,200,000</b>	<b>-</b>	<b>(800,000)</b>	<b>1,400,000</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 25. SHARE OPTION SCHEMES (Continued)

Details of the share options held by the directors included in the above table are as follows:

Date of grant	Exercise price per share HK\$	Vesting period	Exercisable period	Outstanding at 1.1.2004	Excised during the year	Expired during the year	Outstanding at 31.12.2004
29.9.1997	3.80	-	29.9.1997 - 16.9.2004	1,000,000	-	(1,000,000)	-
17.6.2000	0.57	17.6.2000 - 16.6.2002	17.6.2002 - 16.6.2004	100,000	(100,000)	-	-
				1,100,000	(100,000)	(1,000,000)	-

  

Date of grant	Exercise price per share HK\$	Vesting period	Exercisable period	Outstanding at 1.1.2003	Reclassified during the year	Outstanding at 31.12.2003
29.9.1997	3.80	-	29.9.1997 - 16.9.2004	1,000,000	-	1,000,000
17.6.2000	0.57	17.6.2000 - 16.6.2002	17.6.2002 - 16.6.2004	-	100,000	100,000
				1,000,000	100,000	1,100,000

The closing prices of the Company's shares immediately before the date on which the options were exercised were as follows:

Number of share options exercised	Closing price before the date of exercise
200,000	0.74
200,000	0.89

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 25. SHARE OPTION SCHEMES *(Continued)*

- (b) According to the New Share Option Scheme, the Board of Directors of the Company may at their discretion grant options to any director, executive and employee of each member of the Group to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Share options granted should be accepted within 28 days from the date of grant. The Board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. The Board may also provide restrictions on the exercise of a share option during the period a share option may be exercised. The exercise price is determined by the Board of Directors of the Company, and shall be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 10% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue as at the date of adoption of the New Share Option Scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted to each individual under the New Share Option Scheme and any other share option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

No options have been granted under the New Share Option Scheme since its adoption.

The financial impact of share options granted 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 recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of 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 lapse, expire or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 26. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contri- buted surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>					
At 1st January, 2003	237,881	1,109	162,787	(180,003)	221,774
Transfer from share premium to contributed surplus	(237,881)	-	237,881	-	-
Transfer from contributed surplus to accumulated losses	-	-	(180,003)	180,003	-
Loss for the year	-	-	-	(663)	(663)
Dividend paid ( <i>note 9</i> )	-	-	(2,301)	-	(2,301)
At 31st December, 2003	-	1,109	218,364	(663)	218,810
Issue of shares on exercise of share options	192	-	-	-	192
Issue of shares on exercise of convertible notes	10,800	-	-	-	10,800
Loss for the year	-	-	-	(442)	(442)
Dividend paid ( <i>note 9</i> )	-	-	(8,977)	-	(8,977)
At 31st December, 2004	10,992	1,109	209,387	(1,105)	220,383

The contributed surplus of the Company represents the aggregate of:

- (i) the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition of HK\$92,277,000;
- (ii) the credit arising from the reduction of nominal value of the consolidated shares from HK\$1.00 each to HK\$0.10 each by cancelling HK\$0.90 paid up on each issued share, after a transfer of HK\$10,565,000 towards the elimination of the accumulated losses of the Company as at 31st December, 1997, of HK\$70,510,000;
- (iii) the credit arising from cancellation of the share premium account of HK\$237,881,000, after a transfer of HK\$180,003,000 towards the elimination of the accumulated losses of the Company as at 31st December, 2002, of HK\$57,878,000; and
- (iv) the distribution to shareholders of HK\$8,977,000 (2003: HK\$2,301,000) for the year ended 31st December, 2004.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 26. RESERVES (Continued)

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at 31st December, 2004, the Company's reserves available for distribution to shareholders were as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Contributed surplus	<b>209,387</b>	218,364
Accumulated losses	<b>(1,105)</b>	(663)
	<b>208,282</b>	217,701

## 27. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, non-interest bearing and have no fixed terms of repayment. The subsidiaries have confirmed that they do not intend to demand repayment within twelve months of the balance sheet date. Accordingly, such amounts have been classified as non-current.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 28. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Tax losses HK\$'000	Other deferred tax assets HK\$'000	Total HK\$'000
At 1st January, 2003	(13)	2,990	(226)	-	2,751
Charge (credit) for the year	193	-	220	(426)	(13)
Effect of change in tax rate	279	-	(21)	-	258
At 31st December, 2003	459	2,990	(27)	(426)	2,996
Charge (credit) for the year	44	-	(11)	164	197
At 31st December, 2004	503	2,990	(38)	(262)	3,193

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purposes:

	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities	3,358	3,163
Deferred tax assets	(165)	(167)
	3,193	2,996

At 31st December, 2004, the Group had unused tax losses of HK\$92,012,000 (2003: HK\$93,125,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$217,000 (2003: HK\$153,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$91,795,000 (2003: HK\$92,972,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

At 31st December, 2004, the Group had deductible temporary differences of HK\$8,215,000 (2003: HK\$6,636,000). No deferred tax has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 29. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution retirement benefits scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme, or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

The retirement benefits cost of the ORSO Scheme and MPF Scheme charged to consolidated income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31st December, 2004, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in the future years, was HK\$85,000 (2003: HK\$123,000).

Under the MPF Scheme, no forfeited contributions are available to reduce the contributions payable in the future years.

## 30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by subsidiaries	-	-	439,699	399,460
Bills discounted with recourse	21,642	-	-	-

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 31. PLEDGE OF ASSETS

At 31st December, 2004, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

- (a) investment properties and leasehold land and buildings with net book values of HK\$58,000,000 (2003: HK\$58,000,000) and HK\$62,036,000 (2003: HK\$64,534,000), respectively;
- (b) short term bank deposits of HK\$78,128,000 (2003: HK\$38,843,000) for short term bank borrowings;
- (c) trade receivables of certain subsidiaries of HK\$73,122,000 (2003: HK\$119,086,000);
- (d) other investments of HK\$2,865,000 (2003: Nil); and
- (e) all assets of certain subsidiaries with aggregate value of HK\$213,789,000 (2003: HK\$156,132,000).

## 32. OPERATING LEASE ARRANGEMENTS

### The Group as a lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises:		
Related parties	790	738
Outsiders	1,153	1,562
	1,943	2,300

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	333	61

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are negotiated for an average term of one year with fixed rental.



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 32. OPERATING LEASE ARRANGEMENTS (Continued)

### The Group as a lessor

Property rental income earned during the year was HK\$996,000 (2003: HK\$1,600,000). The properties are expected to generate rental yields of 3% on an ongoing basis. The properties held have committed tenants for the next two (2003: one) years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2004 HK\$'000	2003 HK\$'000
Within one year	2,280	1,456
In the second to fifth year inclusive	2,033	-
	4,313	1,456

The Company had no operating lease arrangements at the balance sheet date.

## 33. COMMITMENT

At the balance sheet date, the Group had forward contract commitments as follows:

	2004	2003
Principal amount of forward contracts held for hedging purposes against trade and other payables		
- sale of Hong Kong dollars	-	HK\$37,253,852
- purchase of United States dollars	-	US\$4,832,256

The Company had no forward contract commitments at the balance sheet date.

## 34. MAJOR NON-CASH TRANSACTION

During the year, Convertible Notes were issued to certain directors of subsidiaries of the Company to settle the consideration required for the acquisition of 30% equity interest in RDL Electronic and RDL Macao. The Convertible Notes were fully converted into ordinary shares of HK\$0.10 each of the Company at conversion price of HK\$1.00 each.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

### (I) Connected parties

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions during the year and balances at the balance sheet date with related parties in which certain directors of the Company have beneficial interests, are as follows:

#### (a) Transactions

Name of party	Interested director	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Hon Hai Precision Industry Co., Ltd. (note iii) and its subsidiaries	-	Purchases of electronic products (note i)	76,783	105,897
		Sales of electronic products (note i)	178,514	174,174
		Commission paid by the Group (note i)	-	67
		Commission received by the Group (note i)	625	3,874
United Dynamic Limited	Yim Yuk Lun, Stanley, J.P.	Rental expenses paid by the Group (note ii)	496	480

#### (b) Balances

Name of party	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Hon Hai Precision Industry Co., Ltd. and its subsidiaries	Balance at 31st December		
	- trade receivables	38,221	65,551
	- trade payables	25,471	36,995

(c) On 18th May, 2004, the Company and S.A.S. Investment Company Limited ("S.A.S. Investment"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Mr. Cheung Yuk Kuen ("Mr. Cheung"), Mr. Lock Shui Cheung ("Mr. Lock") and Ms. Chan Wing Mun, Anita ("Ms. Chan") (the "Agreement"). Pursuant to the Agreement, S.A.S. Investment agreed to purchase and Mr. Cheung, Mr. Lock and Ms. Chan agreed to sell 30% of the issued share capital of each of RDL Electronic and RDL Macao at a total consideration of HK\$12,000,000, which was settled by the issue of three 1% non-redeemable convertible notes with principal amounts of HK\$6,500,000, HK\$2,750,000 and HK\$2,750,000 (the "Convertible Notes") to Mr. Cheung, Mr. Lock and Ms. Chan, respectively (the "Acquisition").

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected parties *(Continued)*

#### (c) *(Continued)*

As Mr. Cheung is a director and a substantial shareholder of RDL Electronic and RDL Macao, and both Mr. Lock and Mr. Cheung Chin Hung (the spouse of Ms. Chan) are directors of RDL Electronic, they are therefore connected persons to the Company as defined under the Listing Rules. The Acquisition constitutes a connected transaction under the Listing Rules for the Company and was approved by shareholders of the Company in a special general meeting held on 28th June, 2004.

After the Acquisition, RDL Electronic and RDL Macao have become wholly-owned subsidiaries of the Company.

- (d) In addition, the Company had given guarantees outstanding at 31st August, 2004 amounting to HK\$67,240,000 (31.12.2003: HK\$57,240,000) to certain banks in respect of banking facilities granted by the banks to RDL Electronic which was 70% owned by the Company at 31st December, 2003, and became a wholly-owned subsidiary of the Company on 1st September, 2004. During the year, the Company charged approximately HK\$756,000 (2003: HK\$1,034,000) to RDL Electronic in respect of guarantees given by the Company to RDL Electronic for the period before it became a wholly-owned subsidiary of the Company. The guarantees given by the Company were the only financial assistance given by RDL's shareholders to RDL Electronic.

The Company had also given guarantees outstanding at 31st August, 2004 amounting to HK\$68,200,000 (31.12.2003: HK\$33,000,000) to certain banks in respect of banking facilities granted by the banks to RDL Macao. RDL Macao was 70% owned by the Company at 31st December, 2003 and became a wholly-owned subsidiary of the Company on 1st September, 2004. The guarantees given by the Company were the only financial assistances given by the shareholders of RDL Macao to RDL Macao.

#### *Notes:*

- i. The transactions were carried out at terms determined and agreed by both parties.
- ii. The rentals were charged at terms determined and agreed by both parties.
- iii. The company is a substantial shareholder of the Company.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

### (II) Related parties, other than connected parties

The significant transactions with related parties, other than connected parties, during the year, and significant balances with them at the balance sheet date, are as follows:

#### (a) Transactions

Name of party	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Varitronix International Limited and its subsidiaries (note i)	Purchases of electronic products (note ii)	961	816
	Sales of electronic products (note ii)	72,906	7,491
	Rental expenses paid by the Group (note ii)	294	258
Associates:			
Bestime Technology Development Limited	Sales of electronic products (note ii)	12,299	4,439
	Purchases of electronic products (note ii)	70	-
Ocean Bright Technology Limited	Sales of electronic products (note ii)	13,154	4,470
	Purchases of electronic products (note ii)	708	-
	Services fee paid by the Group (note ii)	438	900
Now Electron Inc.	Sales of electronic products (note ii)	3,493	-

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 35. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

### (II) Related parties, other than connected parties (Continued)

#### (b) Balances

Name of party	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Varitronix International Limited and its subsidiaries (note i)	Balance at 31st December - trade receivables	1,098	2,583
Associates:			
Bestime Technology Development Limited	Balance at 31st December - trade receivables	14,747	11,636
Ocean Bright Technology Limited	Balance at 31st December - trade receivables	15,799	10,089
Now Electron Inc.	Balance at 31st December - trade receivables	755	-

Notes:

- i. Mr. Chang Chu Cheng, a director of the Company, has beneficial interest in the company.
- ii. The transactions were carried out at terms determined and agreed by both parties.

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company %	Principal activities
Bold Technology Limited	British Virgin Islands	Ordinary US\$10	60	Investment holding
Dragon Trading Limited	British Virgin Islands	Ordinary US\$40,000	100	Investment holding

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company %	Principal activities
Golf Specialists Pacific Limited	Hong Kong	Ordinary HK\$4	100	Trading of golf products
Golf Specialists Pacific (China) Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Trading of golf products
Grant Square Investment Limited	Hong Kong	Ordinary HK\$10,000	100	Holding a motor vehicle
Green Classic Investment Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
HAS Electronic Company Limited	Hong Kong	Ordinary HK\$1,000,000	85	Trading of electronic products
Likeson Limited	British Virgin Islands	Ordinary US\$2	100	Investment holding
Manfield Venture Corporation	British Virgin Islands	Ordinary US\$1	100	Investment holding
RDL (China) Development Company Limited	Hong Kong	Ordinary HK\$2	100	Trading of electronic products
RDL Electronic Company Limited	Hong Kong	Ordinary HK\$5,000,000	100	Trading of electronic products
RDL Electronic (Macao Commercial Offshore) Limited	Macao	Ordinary MOP100,000	100	Trading of electronic products
S.A.S. (China) Development Company Limited	Hong Kong	Ordinary HK\$1,000,000	100	Trading of electronic products
S.A.S. Electronic Company Limited	Hong Kong	Ordinary HK\$1,000,000	100	Distribution of electronic products

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2004

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company %	Principal activities
S.A.S. Enterprises Company Limited	Hong Kong	Ordinary HK\$100	100	Distribution of electronic products
		Non-voting deferred* HK\$1,000,000	100	
S.A.S. Investment Company Limited	Hong Kong	Ordinary HK\$100	100	Property and investment holding
		Non-voting deferred* HK\$1,000,000	100	
S.A.S. Logistics Company Limited	Hong Kong	Ordinary HK\$100	100	Provision of logistic services
S.A.S. Telecommunications Company Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
SMartech Electronic Company Limited	Hong Kong	Ordinary HK\$1,000,000	70	Trading of electronic products
Smart-tech (Macao Commercial Offshore) Limited	Macau	Ordinary MOP100,000	100	Trading of electronic products
Sportline Limited	Hong Kong	Ordinary HK\$200,000	100	Trading of sports products

\* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the company or to participate in any distribution on winding up.

With the exception of Dragon Trading Limited, S.A.S. Investment Company Limited, S.A.S. Telecommunications Company Limited and Bold Technology Limited, all the subsidiaries are indirectly held.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.