



## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (“the Stock Exchange”) on 17 January 2002.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

## 2. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (collectively called “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and 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 31 December each year.

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

### Revenue recognition

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

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



### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Leases

Rentals under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are recognised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

#### Taxation

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

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



### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Taxation (Cont'd)

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited 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.

#### Foreign currencies

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

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



### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

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 accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

#### Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

|                                |   |
|--------------------------------|---|
| Freehold land                  | Not depreciated   |
| Leasehold land                 | Over the remaining terms of the leases  |
| Buildings                      | The shorter of their estimated useful lives, being 30 years from the date of acquisition, and the unexpired terms of the lease. |
| Leasehold improvements         | Over the shorter of their estimated useful lives, being 5 years, and the unexpired terms of the leases.                         |
| Plant, equipment and machinery | 5 to 10 years   |
| Motor vehicles                 | 5 years   |



### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Property, plant and equipment (Cont'd)

Construction in progress is stated at cost. Cost comprises direct costs of construction capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare an asset for its intended use are complete. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

The gain or loss arising from the retirement or disposal of an item of property, plant and equipment is determined as the difference between the sales proceed and the carrying amount of the asset and is recognised in the income statement.

#### Investments in subsidiaries

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

#### Inventories

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

#### Defined contribution retirement schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Company's subsidiaries established in the PRC participate in a central pension fund scheme operated by the relevant local government authority in the PRC. These subsidiaries are required to make contributions to the retirement scheme at a certain percentage of the basic salaries of its employees.

Contributions to the above defined contribution schemes are charged to income statement as incurred.



### **3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

#### **Cash and cash equivalents**

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

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### **4. TURNOVER**

Turnover represents amounts received and receivable for goods sold during the year, less returns and discounts.

### **5. SEGMENT INFORMATION**

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

#### **Business segment**

The Group's main business segment is manufacturing and sale of computer peripherals.

The following tables present revenue, results and expenditure information for the Group's business segment.



## 5. SEGMENT INFORMATION (Cont'd)

### Business segment (Cont'd)

#### Group

|  | Manufacturing<br>and sale of<br>computer peripherals |                  | Consolidated     |                  |
|--|--|------------------|------------------|------------------|
|  | 2004<br>HK\$'000                                     | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Segment revenue:                         |  |                  |                  |                  |
| Sales of goods                           | 82,840   | 109,440          | 82,840           | 109,440          |
| Other income                             | 698  | 2,035            | 698              | 2,035            |
|  | <b>83,538</b>  | 111,475          | <b>83,538</b>    | 111,475          |
| Segment results                          | <b>(18,263)</b>                                      | (7,541)          | <b>(18,263)</b>  | (7,541)          |
| Unallocated income                       |  |                  | 223              | 414              |
| Unallocated expenses                     |  |                  | (569)            | (858)            |
| Loss from operations                     |  |                  | <b>(18,609)</b>  | (7,985)          |
| Finance costs                            |  |                  | (198)            | (279)            |
| Loss before taxation                     |  |                  | <b>(18,807)</b>  | (8,264)          |
| Taxation                                 |  |                  | 406              | (1,272)          |
| Net loss attributable to<br>shareholders |  |                  | <b>(18,401)</b>  | (9,536)          |
| Segment assets                           | <b>126,656</b>                                       | 142,767          | <b>126,656</b>   | 142,767          |
| Unallocated assets                       |  |                  | <b>5,451</b>     | 2,562            |
| Total assets                             |  |                  | <b>132,107</b>   | 145,329          |
| Segment liabilities                      | <b>35,228</b>  | 34,771           | <b>35,228</b>    | 34,771           |
| Unallocated liabilities                  |  |                  | <b>2,959</b>     | 7,056            |
| Total liabilities                        |  |                  | <b>38,187</b>    | 41,827           |
| Other segment information:               |  |                  |                  |                  |
| Capital expenditure                      | <b>3,571</b>   | 1,462            | <b>3,571</b>     | 1,462            |
| Depreciation and amortisation            | <b>9,030</b>   | 9,413            | <b>9,030</b>     | 9,413            |
| Provision for doubtful debts             | <b>2,988</b>   | 16,783           | <b>2,988</b>     | 16,783           |
| Provision for inventory<br>obsolescence  | <b>2,705</b>   | 7,389            | <b>2,705</b>     | 7,389            |

**5. SEGMENT INFORMATION (Cont'd)****Geographical segments**

The following table presents revenue and certain assets for the Group's geographical segments.

**Group**

|                            | Europe   |          | Asia Pacific |          | North America |          | South Africa |          | Consolidated |          |
|----------------------------|----------|----------|--------------|----------|---------------|----------|--------------|----------|--------------|----------|
|                            | 2004     | 2003     | 2004         | 2003     | 2004          | 2003     | 2004         | 2003     | 2004         | 2003     |
|                            | HK\$'000 | HK\$'000 | HK\$'000     | HK\$'000 | HK\$'000      | HK\$'000 | HK\$'000     | HK\$'000 | HK\$'000     | HK\$'000 |
| Segment revenue:           |          |          |              |          |               |          |              |          |              |          |
| Sales of goods             | 16,994   | 36,591   | 19,340       | 47,107   | 45,742        | 24,927   | 764          | 815      | 82,840       | 109,440  |
| Other income               | -        | -        | 698          | 2,035    | -             | -        | -            | -        | 698          | 2,035    |
|                            | 16,994   | 36,591   | 20,038       | 49,142   | 45,742        | 24,927   | 764          | 815      | 83,538       | 111,475  |
| Segment assets             | -        | -        | 132,107      | 145,329  | -             | -        | -            | -        | 132,107      | 145,329  |
| Other segment information: |          |          |              |          |               |          |              |          |              |          |
| Capital expenditure        | -        | -        | 3,571        | 1,462    | -             | -        | -            | -        | 3,571        | 1,462    |

**6. OTHER INCOME**

|   | Group            |                  |
|---|------------------|------------------|
|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Interest income                                   | 4                | 10               |
| Gain on disposal of property, plant and equipment | 415              | -                |
| Net exchange gain                                 | -                | 12               |
| Gain on disposal of scrap materials               | 283              | 2,023            |
| Others  | 219              | 404              |
|   | 921              | 2,449            |





## 7. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

|   | Group        |          |
|---|--------------|----------|
|   | 2004         | 2003     |
|   | HK\$'000     | HK\$'000 |
| Staff costs (excluding directors' emoluments):                              |              |          |
| Wages, salaries and benefits  | 8,630        | 12,050   |
| Retirement schemes contributions  | 473          | 795      |
|   | <b>9,103</b> | 12,845   |
| Auditors' remuneration  | 400          | 400      |
| Loss on disposal of property, plant and equipment                           | –            | 36       |
| Cost of inventories sold  | 72,213       | 77,127   |
| Amortisation of intangible assets<br>(including in administrative expenses) | 706          | –        |
| Depreciation of property, plant and equipment                               | 8,324        | 9,413    |
| Operating lease rentals in respect of properties                            | 3,390        | 3,896    |
| Provision for doubtful debts  | 2,988        | 16,783   |
| Provision for inventory obsolescence  | 2,705        | 7,389    |
| Research and development costs  | 125          | 2,397    |

## 8. DIRECTORS' EMOLUMENTS

The directors' emoluments for the year are analysed as follows:

|                             | Group        |          |
|-----------------------------|--------------|----------|
|                             | 2004         | 2003     |
|                             | HK\$'000     | HK\$'000 |
| Fees                        | 105          | 82       |
| Salaries and other benefits | 1,462        | 1,140    |
|                             | <b>1,567</b> | 1,222    |

Included in the directors' emoluments were fees of HK\$105,000 (2003: HK\$82,500) paid to independent non-executive directors during the year.



## 8. DIRECTORS' EMOLUMENTS (Cont'd)

The emoluments of the directors were within the following band:

|                         | Number of directors |      |
|-------------------------|---------------------|------|
|                         | 2004                | 2003 |
| HK\$Nil – HK\$1,000,000 | 7                   | 7    |

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join, or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 8 to the financial statements. Details of the remuneration of the remaining one (2003: one) non-director highest paid employee are as follows:

|                                 | Group            |                  |
|---------------------------------|------------------|------------------|
|                                 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Salaries and other emoluments   | 216              | 192              |
| Retirement scheme contributions | 11               | 10               |
|                                 | 227              | 202              |

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

|                         | Number of individuals |      |
|-------------------------|-----------------------|------|
|                         | 2004                  | 2003 |
| HK\$Nil – HK\$1,000,000 | 1                     | 1    |



## 10. FINANCE COSTS

|  | Group            |                  |
|--|------------------|------------------|
|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Interests on bank loans and overdrafts | 198              | 279              |

## 11. TAXATION

The amount of income tax (credited)/charged to the consolidated income statement represents:

|                                      | Group            |                  |
|--------------------------------------|------------------|------------------|
|                                      | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Current taxation                     |                  |                  |
| – Hong Kong                          | –                | –                |
| – Outside Hong Kong                  | –                | 690              |
|                                      | –                | 690              |
| Deferred taxation ( <i>Note 15</i> ) |                  |                  |
| – (Credit)/charge for the year       | (406)            | 582              |
|                                      | (406)            | 1,272            |

No provisions have been made for Hong Kong Profits Tax as the Group did not have profits assessable in Hong Kong for the years ended 31 December 2004 and 2003.

Income taxes outside Hong Kong are calculated at the rates prevailing in the respective jurisdictions.



## Notes to the Financial Statements

For the year ended 31 December 2004

### 11. TAXATION (Cont'd)

The (credit)/charge for the year can be reconciled to the loss as per the consolidated income statement as follows:

|  | Group           |          |
|--|-----------------|----------|
|  | 2004            | 2003     |
|  | HK\$'000        | HK\$'000 |
| Loss before taxation   | <b>(18,807)</b> | (8,264)  |
| Tax at domestic income tax rate of 17.5%<br>(2003: 17.5%)                              | <b>(3,291)</b>  | (1,446)  |
| Tax effect of income not taxable for tax purpose                                       | <b>301</b>      | (855)    |
| Tax effect of other deductible temporary difference<br>not recognised                  | <b>523</b>      | –        |
| Tax effect on tax losses not recognised  | <b>2,061</b>    | 3,657    |
| Utilisation of tax losses  | –               | (215)    |
| Effect of different taxation rates of<br>subsidiaries operating in other jurisdictions | –               | 131      |
| Taxation for the year  | <b>(406)</b>    | 1,272    |

### 12. LOSS PER SHARE

The calculation of basic earnings per share is based on the Group's loss attributable to shareholders for the year of HK\$18,401,000 (2003: HK\$9,536,000) and the weighted average of 482,759,563 (2003: 415,000,000) ordinary shares in issue during the year.

There were no potential ordinary shares in issue during both years ended 31 December 2004 and 2003.



### 13. PROPERTY, PLANT AND EQUIPMENT

#### Group

|                            | Land and<br>buildings<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Plant,<br>equipment<br>and machinery<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|-----------------------------------|---------------------------------------|--|-------------------------------|-------------------|
| COST                       |                                   |                                       |  |                               |                   |
| At 1 January 2004          | 6,276                             | 6,037                                 | 72,866   | 1,255                         | 86,434            |
| Additions                  | –                                 | –                                     | 40   | –                             | 40                |
| Disposals                  | –                                 | –                                     | (1,633)  | –                             | (1,633)           |
| Exchange realignments      | 188                               | 109                                   | 96   | 14                            | 407               |
| <b>At 31 December 2004</b> | <b>6,464</b>                      | <b>6,146</b>                          | <b>71,369</b>                                    | <b>1,269</b>                  | <b>85,248</b>     |
| DEPRECIATION               |                                   |                                       |  |                               |                   |
| At 1 January 2004          | 479                               | 4,390                                 | 39,340   | 1,109                         | 45,318            |
| Provided for the year      | 156                               | 875                                   | 7,263  | 30                            | 8,324             |
| Written back on disposals  | –                                 | –                                     | (1,133)  | –                             | (1,133)           |
| Exchange realignments      | 17                                | 88                                    | 56   | 2                             | 163               |
| <b>At 31 December 2004</b> | <b>652</b>                        | <b>5,353</b>                          | <b>45,526</b>                                    | <b>1,141</b>                  | <b>52,672</b>     |
| NET BOOK VALUES            |                                   |                                       |  |                               |                   |
| <b>At 31 December 2004</b> | <b>5,812</b>                      | <b>793</b>                            | <b>25,843</b>                                    | <b>128</b>                    | <b>32,576</b>     |
| At 31 December 2003        | 5,797                             | 1,647                                 | 33,526   | 146                           | 41,116            |

The Group's land and buildings are held on the following lease terms:

|                                 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Medium-term leases in Hong Kong | 1,130            | 1,184            |
| Freehold outside Hong Kong      | 4,682            | 4,613            |
|                                 | <b>5,812</b>     | 5,797            |



## Notes to the Financial Statements

For the year ended 31 December 2004

### 13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Medium-term leases represent leases with an unexpired lease term of less than 50 years but not less than 10 years.

Certain land and buildings with net book value of HK\$4,682,000 (2003: HK\$4,613,000) are pledged to secure bank loans granted to the Group.

### 14. INTANGIBLE ASSETS

|  | <b>Group<br/>Product<br/>development<br/>costs</b><br>HK\$'000 |
|--|--|
| <hr/>  |  |
| COST   |  |
| Additions and as at 31 December 2004             | 3,531  |
| <hr/>  |  |
| AMORTISATION                                     |  |
| Provided for the year and as at 31 December 2004 | 706  |
| <hr/>  |  |
| NET BOOK VALUES                                  |  |
| At 31 December 2004                              | 2,825  |
| <hr/> <hr/>                                      |  |

The cost of product development costs is amortised over five years.

### 15. DEFERRED TAX ASSETS

|   | <b>Group<br/>Provision for<br/>inventory<br/>obsolescence</b><br>HK\$'000 |
|---|---|
| <hr/>                                   |   |
| At 1 January 2003                       | 1,894   |
| Charge to income statement for the year | (582)   |
| <hr/>                                   |   |
| At 31 December 2003                     | 1,312   |
| Credit to income statement for the year | 406   |
| <hr/>                                   |   |
| At 31 December 2004                     | 1,718   |
| <hr/> <hr/>                             |   |



## 15. DEFERRED TAX ASSETS (Cont'd)

At the balance sheet date, the Group has unused tax losses of HK\$31,974,000 (2003: HK\$20,196,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the above tax losses due to the unpredictability of future profits streams. The unrecognised tax losses will expire in five year's time.

At the balance sheet date, the Group also has other deductible temporary differences of HK\$67,604,000 (2003: HK\$61,911,000). A deferred tax asset has been recognised in respect of HK\$8,196,000 (2003: HK\$ 5,491,000) of such deductible temporary difference. No deferred tax asset has been recognised in relation of the remaining HK\$59,408,000 (2003: HK\$56,420,000) as it is not probably 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.

## 16. INVESTMENTS IN SUBSIDIARIES

|                          | Company          |                  |
|--------------------------|------------------|------------------|
|                          | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Unlisted shares, at cost | 122,000          | 122,000          |
| Less: Impairment loss    | (74,200)         | (51,600)         |
|                          | 47,800           | 70,400           |

**16. INVESTMENTS IN SUBSIDIARIES (Cont'd)**

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

| Name of company                                     | Place of incorporation/<br>operation | Particulars<br>of issued<br>and paid<br>up capital   | Proportion<br>of equity<br>interest held |          | Principal activity                                   |
|---|--------------------------------------|--|--|----------|--|
|   |                                      |  | Direct                                   | Indirect |  |
| Pablo Enterprises Ltd.                              | British Virgin Islands               | 10,000 shares of US\$1 each  | 100%                                     | –        | Investment holding                                   |
| Sky Hawk Computer                                   | Belgium                              | EUR61,973.38   | –  | 100%     | Investment holding                                   |
| Sky Hawk Computer (Shenzhen) Company                | PRC                                  | US\$5,650,000  | –  | 100%     | Manufacturing of computer peripherals                |
| San Hawk Technic Co., Ltd.                          | Taiwan                               | NT\$10,000,000   | –  | 100%     | Trading of computer peripherals                      |
| Eagle Lord Development Limited ("Eagle Lord")       | Hong Kong                            | 10,000 non-voting deferred shares of HK\$1 each and 2 ordinary shares of HK\$1 each <sup>#</sup> | –  | 100%     | Property holding and trading of computer peripherals |
| Eagle Lord Trading International (Shenzhen) Limited | PRC                                  | HK\$2,000,000  | –  | 100%     | Trading of computer peripherals                      |
| Glory Trading Limited                               | Samoa                                | 10,000 shares of US\$1 each  | –  | 100%     | Trading of computer peripherals                      |
| Newton Investment Limited                           | Samoa                                | 11,000 shares of US\$1 each  | –  | 100%     | Dormant  |
| Sky Hawk Computer Group Limited                     | British Virgin Islands               | 1 share of US\$1 each  | –  | 100%     | Investment holding                                   |

<sup>#</sup> In accordance with the Articles of Association of Eagle Lord, a shareholder of non-voting deferred share is not entitled to any dividend or any participation in the profits or assets of Eagle Lord and is also not entitled to vote at any general meeting.





## 17. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest free and have no fixed repayment terms.

## 18. INVENTORIES

|                  | Group            |                  |
|------------------|------------------|------------------|
|                  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Raw materials    | 16,757           | 26,813           |
| Work in progress | 17,242           | 18,864           |
| Finished goods   | 8,066            | 6,156            |
|                  | <b>42,065</b>    | 51,833           |

Included in the inventories are goods of cost of HK\$19,841,000 (2003: HK\$14,465,000), stated net of provision of HK\$17,170,000 (2003: HK\$14,465,000), made in order to state these inventories at the lower of their cost and estimated net realisable value.

## 19. TRADE RECEIVABLES

The Group normally allows credit terms ranging from one to six months to its customers.

An aging analysis of the trade receivables as at the balance sheet date is as follows:

|                                  | Group            |                  |
|----------------------------------|------------------|------------------|
|                                  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Within 90 days                   | 24,916           | 28,700           |
| Over 90 days and within 180 days | 11,270           | 5,430            |
| Over 180 days and within 1 year  | 1,413            | 7,362            |
| Over 1 year and within 2 years   | 3,000            | 4,214            |
|                                  | <b>40,599</b>    | 45,706           |



## 20. BANK LOANS AND OVERDRAFTS

|                         | Group        |              |
|-------------------------|--------------|--------------|
|                         | 2004         | 2003         |
|                         | HK\$'000     | HK\$'000     |
| Secured bank overdrafts | –            | 317          |
| Bank loans              |              |              |
| secured                 | 2,959        | 4,865        |
| unsecured               | –            | 1,874        |
|                         | <b>2,959</b> | <b>7,056</b> |

All bank loans and overdrafts are either repayable within one year or repayable on demand.

The amount of bank loans and overdrafts are secured by the following assets owned by the Group:

|                                       | 2004     | 2003     |
|---------------------------------------|----------|----------|
|                                       | HK\$'000 | HK\$'000 |
| Land and buildings ( <i>note 13</i> ) | 4,682    | 4,613    |

## 21. TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date is as follows:

|  | Group         |               |
|--|---------------|---------------|
|  | 2004          | 2003          |
|  | HK\$'000      | HK\$'000      |
| Due within one month or on demand            | 9,780         | 4,345         |
| Due after one month and within three months  | 2,769         | 5,111         |
| Due after three months and within six months | 2,160         | 3,854         |
| Due after six months and within one year     | 191           | 1,505         |
|  | <b>14,900</b> | <b>14,815</b> |



## 22. SHARE CAPITAL

|   | 2004                           |                    | 2003                           |                    |
|---|--------------------------------|--------------------|--------------------------------|--------------------|
|   | Number<br>of shares<br>million | Amount<br>HK\$'000 | Number<br>of shares<br>million | Amount<br>HK\$'000 |
| <b>Authorised</b>                       |                                |                    |                                |                    |
| Ordinary share of HK\$0.10 each         | <b>4,000</b>                   | <b>400,000</b>     | 4,000                          | 400,000            |
| <b>Issued and fully paid</b>            |                                |                    |                                |                    |
| At 1 January                            | <b>415</b>                     | <b>41,500</b>      | 415                            | 41,500             |
| Issue of shares on private<br>placement | <b>80</b>                      | <b>8,000</b>       | –                              | –                  |
| At 31 December                          | <b>495</b>                     | <b>49,500</b>      | 415                            | 41,500             |

In February 2004, The Company issued and allotted 80,000,000 ordinary shares at the price of HK\$0.118 per share upon the private placement. The proceeds were to provide additional working capital and expand sales and marketing capacity of the Group.

## 23. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme"), which became effective on 17 January 2002 under which the directors of the Company may grant options to eligible employees or persons, including directors of any company in the Group, to subscribe for shares of the Company.

Upon payment of a nominal consideration of HK\$1 per option, the option may be exercised at any time during the exercisable period, which is determinable by the directors of the Company and may commence from the date of acceptance but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination under the Scheme. The exercise price is determined by the directors of the Company, and shall not be less than the highest of:

- i. the closing price of shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a business day;
- ii. the average closing price of shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and
- iii. the nominal value of the share.



## 23. SHARE OPTION SCHEME (Cont'd)

The maximum number of shares in respect of which options may be granted under the Scheme may not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the Scheme.

During the year, no option was granted or agreed to be granted under the Scheme.

## 24. RESERVES

### Company

|   | Share<br>premium<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000<br>(Note (a)) | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|--|-----------------------------------|-------------------|
| At 1 January 2003                       | 6,592                        | 118,611  | (56,632)                          | 68,571            |
| Loss for the year                       | –                            | –  | (1,440)                           | (1,440)           |
| At 31 December 2003                     | 6,592                        | 118,611  | (58,072)                          | 67,131            |
| Issue of shares on private<br>placement | 1,440                        | –  | –                                 | 1,440             |
| Share issue expenses                    | (271)                        | –  | –                                 | (271)             |
| Loss for the year                       | –                            | –  | (23,854)                          | (23,854)          |
| At 31 December 2004                     | 7,761                        | 118,611  | (81,926)                          | 44,446            |

#### Notes:

- The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account.
- Under the Companies Law of the Cayman Islands, the funds in the contributed surplus account and share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- At 31 December 2004 in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to HK\$44,446,000 (2003: HK\$67,131,000) subject to the restriction stated in Note (b) above.



## 25. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms and rentals are fixed for an average period ranging from one to six years.

As at 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | <b>Group</b>    |          |
|---|-----------------|----------|
|   | <b>2004</b>     | 2003     |
|   | <b>HK\$'000</b> | HK\$'000 |
| Within one year                         | <b>2,738</b>    | 2,905    |
| In the second to fifth years, inclusive | <b>3,879</b>    | 6,589    |
|   | <b>6,617</b>    | 9,494    |

The Company did not have any operating lease arrangements as at 31 December 2004 (2003: Nil).

## 26. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at 31 December 2004 (2003: Nil).