

I. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated on 5 July 2002 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 36.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire issued share capital of Sunlink Technologies Holdings Limited and thereby became the holding company of the Group on 20 December 2002. Details of the Group Reorganisation are set out in the prospectus dated 18 February 2003 issued by the Company.

On 25 February 2003, 60,000,000 new ordinary shares of the Company of HK\$0.1 each were issued at HK\$0.50 per share for cash through an initial public offering by way of placing and public offer. On the same date, 339,000,000 ordinary shares of HK\$0.1 each were allotted and issued, credited as fully paid at par, to the holders of shares of the Company on the register of members at the close of business on 12 February 2003 in proportion their existing holding by way of capitalization of the sum of HK\$33,900,000 standing at the credit of the share premium account of the Company following the placing and public offer mentioned above ("Capitalisation Issue").

The shares of the Company have been listed on the Stock Exchange with effect from 3 March 2003.

For the year ended 31 December 2002, the Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements had been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants (the "HKSA").

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKSA, the term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

SSAP 12 (Revised) Income Taxes

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Details of this revised accounting policy are set out in note 3. However, the adoption of the standard has had no material effect on the results for current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. PRINCIPAL ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and 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.

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.

Investments in subsidiaries

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

Goodwill

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

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill (continued)

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of profit or loss on disposal.

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.

Negative goodwill is presented as deduction from assets. To the extent that such 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 as income immediately.

On the disposal of a subsidiary, the attributable amount of unreleased negative goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

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

Commission, compensation, engineering income and technical service income are recognised when services are rendered.

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to its present working condition and location for its intended use.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation and amortisation 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:

Leasehold land	Over the term of the lease
Building	Over the term of the lease or forty years, whichever is shorter
Leasehold improvement	20%–25%
Office equipment	20%–25%
Furniture and fixtures	20%–25%
Computer equipment	30%–50%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Investment properties

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

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease 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 is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Investments in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments in securities (continued)

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.

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.

Technology know-how

Technology know-how is stated cost less accumulated amortisation and accumulated impairment loss. Amortisation is provided to write off the cost on a straight-line basis over its useful life.

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 losses are recognised as an expense immediately.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease 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 leasing commitments and the fair value of the assets acquired, 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 balance of the obligations for each accounting period.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the net profit or loss for the period.

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

Operating leases

Rental under operating leases are charged to the income statement on a straight-line basis over the relevant terms of leases.

Retirement benefit costs

The contributions payable to the retirement benefit schemes are charged to the income statement as expense as they fall due.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

Income tax expense 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 items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 profit 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.

4. TURNOVER

Turnover represents the net amount received and receivable for goods sold and services provided, during the year.

Notes to the Financial Statements

for the year ended 31 December 2003

5. SEGMENT INFORMATION**Business segments**

For management purposes, the Group is currently organised into two operating divisions — distribution of semiconductors and development and provision of electronic turnkey device solutions. These divisions are the basis on which the Group reports its primary segment information. Inter-segment sales were carried out at market price.

Segment information about these businesses is presented below.

Income statement

for the year ended 31 December 2003

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	324,025	32,516	—	356,541
Inter-segment sales	768	5,079	(5,847)	—
	324,793	37,595	(5,847)	356,541
Segment results	2,953	(9,956)	—	(7,003)
Unallocated corporate revenue				273
Unallocated corporate expenses				(976)
Loss from operations				(7,706)
Finance costs				(4,026)
Loss before taxation				(11,732)
Income tax expenses				(75)
Loss before minority interests				(11,807)
Minority interests				154
Loss for the year				(11,653)

5. SEGMENT INFORMATION (continued)**Balance sheet***as at 31 December 2003*

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	155,970	25,955	—	181,925
Unallocated corporate assets				53,396
Consolidated total assets				<u>235,321</u>
Liabilities				
Segment liabilities	61,499	5,075	—	66,574
Unallocated corporate liabilities				99,505
Consolidated total liabilities				<u>166,079</u>
Other information				
Additions to property, plant and equipment and intangible assets	287	1,318	—	1,605
Technology know-how capitalised	—	5,460	—	5,460
Depreciation and amortisation of property, plant and equipment	357	694	—	1,051
Loss on disposals of property plant and equipment	—	430	—	430
Amortisation of goodwill	775	—	—	775
Release of negative goodwill	(58)	(41)	—	(99)
Allowance for doubtful debts	1,374	647	—	2,021
Allowance for slow moving inventories	907	1,035	—	1,942

Notes to the Financial Statements

for the year ended 31 December 2003

5. SEGMENT INFORMATION (continued)**Income statement***for the year ended 31 December 2002*

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	406,086	32,101	—	438,187
Inter-segment sales	625	4,658	(5,283)	—
	406,711	36,759	(5,283)	438,187
Segment results	35,290	5,804	—	41,094
Unallocated corporate revenue				258
Unallocated corporate expenses				(100)
Profit from operations				41,252
Finance costs				(3,040)
Profit before taxation				38,212
Income tax expenses				(6,486)
Profit before minority interests				31,726
Minority interests				(1,034)
Profit for the year				30,692

5. SEGMENT INFORMATION (continued)**Balance sheet***as at 31 December 2002*

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	144,211	34,782	(7,454)	171,539
Unallocated corporate assets				<u>50,214</u>
Consolidated total assets				<u>221,753</u>
Liabilities				
Segment liabilities	68,767	9,930	(7,454)	71,243
Unallocated corporate liabilities				<u>90,826</u>
Consolidated total liabilities				<u>162,069</u>
Other information				
Additions to property, plant and equipment and intangible assets	10,254	574	—	10,828
Depreciation and amortisation of property, plant and equipment	331	937	—	1,268
Amortisation of goodwill	659	—	—	659
Release of negative goodwill	(58)	—	—	(58)
Allowance for doubtful debts	202	2,422	—	2,624
Allowance for slow moving inventories	52	1,146	—	1,198

Geographical segments

The Group's operations are principally located in Hong Kong and the People's Republic of China ("PRC").

The following table provides an analysis of the Group's sales by geographical location of customers, irrespective of the origin of the goods/services:

	2003 HK\$'000	2002 HK\$'000
Hong Kong	250,655	286,123
PRC	103,735	138,683
Others	2,151	13,381
	356,541	438,187

Notes to the Financial Statements

for the year ended 31 December 2003

5. SEGMENT INFORMATION (continued)

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	184,397	172,515	5,747	10,257
PRC	46,270	47,437	1,318	571
Others	22	707	—	—
	230,689	220,659	7,065	10,828

6. OTHER OPERATING INCOME

	2003	2002
	HK\$'000	HK\$'000
Commission income	246	3,066
Compensation income	522	708
Engineering income	108	201
Gain on disposal of property, plant and equipment	—	12
Interest income	273	258
Research and marketing service income	—	440
Release of negative goodwill	99	58
Rental income	122	53
Unrealised gain on investment in securities	5	—
Sample income	302	255
Technical service income	223	—
Sundry income	2,102	1,866
	4,002	6,917

7. (LOSS) PROFIT FROM OPERATIONS

	2003	2002
	HK\$'000	HK\$'000
(Loss) profit from operations is arrived at after charging:		
Amortisation of goodwill included in general and administrative expenses	775	659
Auditors' remuneration	640	680
Depreciation and amortisation of property, plant and equipment		
own assets	1,038	1,256
asset held under a finance lease	13	12
Exchange loss, net	285	118
Loss on disposals of property, plant and equipment	430	—
Operating lease in respect of		
land and building	1,945	1,899
plant and equipment	1	4
Allowance for doubtful debts included in general and administrative expenses	2,021	2,624
Allowance for slow moving inventories included in cost of sales	1,942	1,198
Staff costs inclusive of directors' remuneration (note 9)	23,616	22,882
Unrealised loss on investment in securities	—	20
Revaluation decrease on revaluation of investment properties	239	—

8. FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	3,335	2,143
Interest on other borrowings	685	892
Finance lease charges	6	5
	4,026	3,040

Notes to the Financial Statements

for the year ended 31 December 2003

9. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES

Directors' remunerations paid by the Group to the directors during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Fees	100	—
Basic salaries, housing allowances, other allowances and benefits in kind	3,118	2,764
Retirement scheme contributions	54	60
	3,272	2,824

The remunerations of the directors were within the following band:

	2003	2002
	Number of directors	Number of directors
Nil to HK\$1,000,000	8	8

Included in directors' remunerations are fees of HK\$100,000 (2002: nil) payable to independent non-executive directors of the Company.

The five highest paid individuals of the Group in 2003 and 2002 were all directors of the Company. Details of their emoluments are included in above.

During both years, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any remunerations during both years.

10. INCOME TAX EXPENSES

	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
current year	78	6,636
overprovision in prior year	(3)	(150)
	75	6,486

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. The profits tax rate has been increased with effect from the 2003 year of assessment.

The taxation charge for the year can be reconciled to the (loss) profit per the income statements as follows:

	2003	2002
	HK\$'000	HK\$'000
(Loss) profit before taxation	(11,732)	38,212
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(2,053)	6,114
Tax effect of expenses that are not deductible in determining taxable profit	425	238
Tax effect of income that are not taxable in determining taxable profit	(101)	(33)
Tax effect of unrecognised tax loss	1,839	328
Effect of tax exemptions granted to PRC subsidiary	(46)	—
Others	14	(11)
Overprovision in prior year	(3)	(150)
Taxation charge for the year	75	6,486

At 31 December 2003, a deferred tax asset of approximately HK\$2,198,000 (2002: HK\$328,000) has not been recognised in the financial statements in respect of tax losses available to offset future assessable profits as, in the opinion of the directors, it is not certain that the tax losses will be utilised in the foreseeable future due to the unpredictability of future profit streams. Tax losses carried forward amounting to approximately HK\$12,559,000 (2002: HK\$2,048,000).

Details of deferred tax liabilities are set out in note 25.

Notes to the Financial Statements

for the year ended 31 December 2003

11. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Dividends declared by subsidiaries of the Company to the then shareholders prior to the Group Reorganisation	—	5,940
Interim dividends	—	10,000
	—	15,940

12. (LOSS) EARNINGS PER SHARE

The calculations of the basic loss per share for the year ended 31 December 2003 is based on the loss for the year of HK\$11,653,000 and on 390,794,000 weighted average shares.

The calculations of the basic earnings per share for the year ended 31 December 2002 was based on the profit for the year of HK\$30,692,000 and on 340,000,000 shares which represented 1,000,000 shares in issue as at 31 December 2002 and 339,000,000 shares issued pursuant to the Capitalisation Issue upon the Group Reorganisation, deemed to be outstanding throughout the year.

13. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 January 2003	1,814
Revaluation decrease	(239)
At 31 December 2003	1,575

The investment properties were revalued at their open market value at 31 December 2003 by Surpass Company Limited, an independent valuer, on an open market value basis. The deficit arising on revaluation amounted to HK\$239,000, attributable to the Group has been charged to the general and administrative expenses of income statement.

Investment properties, which are situated in Hong Kong and held under medium term leases, are held for rental purpose and have been pledged to secure banking facilities granted to the Group.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improve- ments	Office equipment	Furniture and fixtures	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST							
At 1 January 2003	6,333	2,971	4,218	1,881	209	147	15,759
Exchange realignment	—	—	(2)	—	—	—	(2)
Additions	—	1,035	568	—	2	—	1,605
Disposals	—	(822)	(10)	(49)	—	—	(881)
At 31 December 2003	6,333	3,184	4,774	1,832	211	147	16,481
DEPRECIATION AND AMORTISATION							
At 1 January 2003	87	1,942	3,522	817	153	147	6,668
Provided for the year	149	359	225	287	31	—	1,051
Eliminated on disposals	—	(396)	(10)	(42)	—	—	(448)
At 31 December 2003	236	1,905	3,737	1,062	184	147	7,271
NET BOOK VALUES							
At 31 December 2003	6,097	1,279	1,037	770	27	—	9,210
At 31 December 2002	6,246	1,029	696	1,064	56	—	9,091

Land and buildings, which are situated in Hong Kong and held under medium term leases, have been pledged to secure banking facilities granted to the Group.

Included in the net asset values of the property, plant and equipment as at 31 December 2003 was an amount of HK\$53,300 (2002: HK\$66,300) in respect of an asset held under a finance lease.

Notes to the Financial Statements

for the year ended 31 December 2003

15. GOODWILL

	HK\$'000
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COST	
At 1 January 2003 and 31 December 2003	2,103
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AMORTISATION	
At 1 January 2003	1,005
Provided for the year	775
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At 31 December 2003	1,780
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NET BOOK VALUE	
At 31 December 2003	323
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At 31 December 2002	1,098
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The amortisation period adopted for goodwill is two years.

16. NEGATIVE GOODWILL

	HK\$'000
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GROSS AMOUNT	
At 1 January 2003 and 31 December 2003	198
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RELEASED TO INCOME	
At 1 January 2003	58
Released for the year	99
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At 31 December 2003	157
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CARRYING AMOUNT	
At 31 December 2003	41
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At 31 December 2002	140
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The negative goodwill is released to income on a straight-line basis over 2 years, being the remaining weighted average useful life of the depreciable assets of the subsidiaries in which additional interests acquired.

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2003 & 2002 HK\$'000
Unlisted shares, at cost	69,560

The cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation.

Particulars of the Company's subsidiaries at 31 December 2003 are set out in note 36.

18. INVESTMENT IN SECURITIES

	2003 HK\$'000	2002 HK\$'000
Other investment:		
Listed equity securities in Hong Kong, at market value	11	6
Investment securities:		
Unlisted debts securities, at cost	2,964	2,964
	2,975	2,970
Non-current	2,964	2,964
Current	11	6
	2,975	2,970

19. TECHNOLOGY KNOW-HOW

In May 2002, a deposit of HK\$5,460,000 (USD700,000) was paid to an independent third party for the development of the known-how of global positioning system products ("GPS know-how"). In late 2003, the development was completed and the Group obtained the right of the GPS know-how in the consideration of the deposit paid.

The Group intends to use this know-how to develop electronic turnkey device solutions for GPS products in the future. The amount is capitalised as technology know-how and will be amortised on a straight-line basis over 2 years.

Notes to the Financial Statements

for the year ended 31 December 2003

20. INVENTORIES

	2003	2002
	HK\$'000	HK\$'000
At costs:		
Raw materials	729	4,822
Work-in-progress	1,793	1,901
Finished goods	41,938	20,489
	44,460	27,212

21. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 14 to 90 days to its trade customers. For certain customers with long-established relationship and good past settlement histories, a longer credit period may be granted.

An aged analysis of trade debtors is as follows:

	2003	2002
	HK\$'000	HK\$'000
Within 30 days	22,656	36,795
Between 31 to 60 days	14,700	29,925
Over 60 days	62,067	38,141
	99,423	104,861
Other debtors, deposits and prepayments	23,127	29,417
	122,550	134,278

22. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

	2003 HK\$'000	2002 HK\$'000
Within 30 days	26,398	25,476
Between 31 to 60 days	16,282	18,889
Over 60 days	2,212	10,623
Other creditors and accrued charges	44,892	54,988
	27,972	22,620
	72,864	77,608

Included in other creditors and accrued charges are other borrowings which were interest bearing of HK\$17,866,000 as at 31 December 2003 (2002: HK\$13,535,000).

23. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	17	17	13	11
More than one year, but not exceeding two years	17	17	13	13
More than two years, but not exceeding five years	20	37	20	33
Less: future finance charges	54 (8)	71 (14)	46 —	57 —
Present value of lease obligations	46	57	46	57
Less: Amount due within one year shown under current liabilities			(13)	(11)
			33	46

The lease term of the plant and equipment under finance lease is 5 years. For the year ended 31 December 2003, the effective borrowing rate was 10%. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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for the year ended 31 December 2003

24. SHORT TERM BORROWINGS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Bank overdrafts	2	—
Bank loans	8,300	2,871
	8,302	2,871
Secured	8,302	—
Unsecured	—	2,871
	8,302	2,871

25. DEFERRED TAX LIABILITIES

At the balance sheet dates, deferred tax liabilities provided represents the tax effect on temporary difference on the carrying amount of assets over the tax base.

26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Details of the share capital of the Company are as follows:		
Ordinary shares of HK\$0.1 each:		
Authorised		
On incorporation	3,800,000	380
Increase on 20 December 2002	996,200,000	99,620
At 31 December 2002 and 31 December 2003	1,000,000,000	100,000
Issued and fully paid:		
Allotted and issued nil paid on incorporation	1	—
Allotted and issued nil paid on 2 December 2002	99	—
Issue of shares upon the Group Reorganisation	999,900	100
At 31 December 2002	1,000,000	100
Issue of shares upon the placing and public offer	60,000,000	6,000
Capitalisation issue	339,000,000	33,900
At 31 December 2003	400,000,000	40,000

26. SHARE CAPITAL (continued)

The following changes in the share capital of the Company took place during the period from 5 July 2002 (date of incorporation) to 31 December 2003:

- (a) The Company was incorporated on 5 July 2002 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each. At the time of incorporation, 1 ordinary share of HK\$0.1 each was allotted and issued nil paid. On 2 December 2002, the Company allotted and issued 99 ordinary shares of HK\$0.1 each nil paid.
- (b) Pursuant to written resolutions of the shareholders of the Company passed on 20 December 2002:
 - (i) the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 996,200,000 new ordinary shares of HK\$0.1 each. The new shares rank pari passu in all respects with the existing shares;
 - (ii) as consideration for the exchange of the entire issued share capital of Sunlink Technologies Holdings Limited and its subsidiaries, the Company has issued an aggregate of 999,900 ordinary shares, credited as fully paid under the Group Reorganisation which took place on 20 December 2002. The difference between the deemed consideration and the aggregate par value of the shares issued has been credited to share premium account; and
 - (iii) an amount of HK\$100,000 credited to the share premium of the Company arising from the issue of 999,900 shares in exchange of the entire issued share capital of Sunlink Technologies Holdings Limited and its subsidiaries above was applied in paying full at par value the 1 ordinary share and 99 ordinary shares, which were allotted and issued nil paid on the date of incorporation and 2 December 2002 respectively.
 - (iv) On 25 February 2003, 60,000,000 new ordinary shares of the Company of HK\$0.1 each were issued at HK\$0.5 per share for cash through an initial public offering by way of placing and public offer. On the same date, 339,000,000 ordinary shares of HK\$0.1 each were allotted and issued, credited as fully paid at par, to the holders of shares of the Company on the register of members at the close of business on 12 February 2003 in proportion to their existing holding by way of capitalisation of the sum of HK\$33,900,000 standing at the credit of the share premium account of the Company following the placing and public offer mentioned above.

The share capital of 31 December 2002 as shown in the consolidated balance sheet represented the aggregate amount of the nominal value of the share capital and share premium of the subsidiaries, acquired by the Company pursuant to the Group Reorganisation.

Notes to the Financial Statements

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27. SHARE OPTION SCHEME

A share options scheme was adopted at a special general meeting of the Company held on 12 February 2003 pursuant to which the board of directors of the Company may, at their discretion, grant options to employees, including executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10 per cent. of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 30 per cent. of the maximum number of shares in respect of which options may be granted under the share option scheme.

* No option was granted by the Company since the adoption of the Share Option Scheme.

28. RESERVES

	Share premium	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
The Company			
Premium arising on Group Reorganisation	69,560	—	69,560
Capitalisation arising on Group Reorganisation	(100)	—	(100)
Profit for the period	—	10,150	10,150
Interim dividends	—	(10,000)	(10,000)
At 31 December 2002	69,460	150	69,610
Shares issued at premium on placing and public offer	24,000	—	24,000
Shares issue expenses	(8,517)	—	(8,517)
Capitalisation of share premium	(33,900)	—	(33,900)
Loss for the year	—	(137)	(137)
At 31 December 2003	51,043	13	51,056

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$51,056,000 (2002: HK\$69,610,000).

29. PLEDGE OF ASSETS

The Group had pledged the following assets to secure general banking facilities at the balance sheet date:

	2003	2002
	HK\$'000	HK\$'000
Bank deposits	20,583	18,008
Investment in securities	2,964	2,964
Investment properties	1,575	1,814
Leasehold land and buildings	6,097	6,246
	31,219	29,032

30. OPERATING LEASE ARRANGEMENTS**The Group as lessee**

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	1,142	592
In the second to fifth year inclusive	1,038	225
	2,180	817

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are fixed and negotiated for an average term of two years.

At 31 December 2003, the Company had commitments for future minimum lease payments under a non-cancellable operating lease in respect of its office property which falls due within 1 year of HK\$57,000 (2002: nil). Operating lease is fixed and negotiated for a term of 22 months.

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30. OPERATING LEASE ARRANGEMENTS (continued)**The Group as lessor**

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	247	53

Lease is fixed and negotiated for a term of 24 months.

31. EMPLOYEE RETIREMENT BENEFITS

Prior to 1 December 2000, the Group operated a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held under funds managed by independent trustees. The Group and its employees participating in the scheme were each required to make contributions to the scheme calculated at 5 per cent. of individual employee's basic monthly salaries. The Group's contribution made to employees who have left the Group's employment prior to being vested fully with such contributions were forfeited. Contributions from the Group and its employee were frozen with the adoption of Mandatory Provident Fund Scheme ("MPF Scheme").

With effective from 1 December 2000, the operating subsidiaries in Hong Kong joined the MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The PRC employees of subsidiaries registered in the PRC are members of the pension scheme operated by the PRC local government. The PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Group with respect of the pension scheme is the required contributions under the pension scheme.

The net cost credited to income statement of HK\$109,000 (2002: charged of HK\$512,000) represents net contributions payable to these schemes by the Group in respect of the current accounting period.

32. CONTINGENT LIABILITY

The Group

At 31 December 2003, the Group has contingent liability arising from bills of exchange discounted with recourse amounting to HK\$2,247,000 (2002: nil).

The Company

At 31 December 2003, the Company has provided corporate guarantee of HK\$151,500,000 (2002: nil) in respect of banking facilities granted by banks to its subsidiaries.

33. CAPITAL COMMITMENT

At the balance sheet date, the Group had capital commitments in respect of the acquisition of a motor vehicle of HK\$166,000 (2002: nil) contracted for but not provided for in the financial statements.

34. RELATED PARTY TRANSACTIONS

- (a) The Group had the following transactions, which were conducted in the ordinary course of the Group's business, with its related parties during the year ended 31 December 2002:

Name	Note	Nature of transactions	2002 HK\$'000
Brookwealth Limited	(i)	Rental paid to	30
Brookwealth Limited	(ii)	Purchase of investment properties	1,800
Team Bright International Limited	(i)	Rental paid to	165
Team Bright International Limited	(ii)	Purchases of land and buildings	3,000
Topwide International Trading Company Limited	(i)	Rental paid to	75
Topwide International Trading Company Limited	(ii)	Purchases of land and buildings	3,200

Notes:

- (i) Rental paid were determined on basis as agreed between the parties involved.
- (ii) The consideration for the purchases of investment properties and land and buildings were determined with reference to professional valuation.

These related party transactions have been ceased during the year ended 31 December 2002 and have been discontinued thereafter.

Mr. Wong Shu Wing and Mr. Kwan Kim Fai, Stanley, directors and beneficial owners of the Company, have beneficial interests in Brookwealth Limited, Team Bright International Limited and Topwide International Trading Company Limited.

Notes to the Financial Statements

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34. RELATED PARTY TRANSACTIONS (continued)

- (b) During the year ended 31 December 2002, the Group acquired additional interest in certain subsidiaries, namely, Apson Electronic Products Limited, Hoover Technologies Limited, Sunwave Computers Limited, Sunwave Development Limited and Sytech Electronics Limited from Mr. Wong Shu Wing, a director and one of the beneficial owners of the Company, Mr. Tsing Kwok Lun, Allan and Mr. Choi Tak Kai, directors of the Company, at a total consideration of HK\$6,024,000. The consideration was determined with reference to the attributable net assets value of respective subsidiaries shown in the latest available unaudited management accounts of the subsidiaries at the time of the acquisition.
- (c) Certain directors provided unlimited personal guarantees to banks as part of the security to secure for banking facilities granted to the Group at nil consideration during the prior year. These unlimited personal guarantees ceased to be provided by those directors after the shares of the Company have been listed on the Stock Exchange with effect from 3 March 2003.
- (d) Certain related companies in which certain directors have beneficial interests pledged their properties to banks as part of the security to secure for banking facilities granted to the Group during the prior years. During the year ended 31 December 2002, the Group acquired certain of these properties from the above related companies. These security ceased to be provided by the above related companies thereafter.

35. POST BALANCE SHEET EVENT

On 20 February 2004, a placing and subscription agreement ("Agreement") was entered into between the Company, Best Eagle International Ltd. ("Best Eagle"), a substantial shareholder of the Company, and an independent placing agent. Pursuant to the Agreement, Best Eagle agreed to place through the placing agent not less than 60,000,000 shares and up to 80,000,000 shares at the price of HK\$0.138 per placing share and Best Eagle would subscribe for the same number of shares sold under the placing at the same price of HK\$0.138 per share. The subscription was subsequently completed on 4 March 2004 and total of 73,000,000 shares have been placed and subscribed. Net proceeds of approximately HK\$10 million are to be used as general working capital of the Group.

36. SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2003 were as follows:

Name of company	Place and date of incorporation/ registration	Forms of legal entity	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the	
				Group	Principal activities
Apson Electronic Products Limited	Hong Kong 7 August 1990	Limited liability company	Ordinary shares HK\$200,000	99%	Manufacturing and trading of computer components
Hoover Technologies Limited	Hong Kong 19 November 1992	Limited liability company	Ordinary shares HK\$1,020,000	99%	Trading of electronic products
Kingful Investment Limited	Hong Kong 26 April 2002	Limited liability company	Ordinary shares HK\$10,000	100%	Property holding

36. SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ registration	Forms of legal entity	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the	
				Group	Principal activities
Ocean King Investment Limited	British Virgin Island 18 March 2002	Limited liability company	Ordinary share US\$1	100%	Investment holding
Rawason Development Limited	British Virgin Islands 23 February 2000	Limited liability company	Ordinary shares US\$1	100%	Provision of technology solutions and investment holding
J-Link Group Limited (formerly known as Sunlink Asia Pacific Limited)	British Virgin Islands 27 May 2002	Limited liability company	Ordinary shares US\$1	100%	Investment holding
Sunlink Technologies Holdings Limited	British Virgin Islands 27 May 2002	Limited liability company	Ordinary shares US\$700	100%	Investment holding
Sunlink Technologies Limited	British Virgin Islands 27 May 2002	Limited liability company	Ordinary shares US\$1	100%	Investment holding
Sun Horse Technologies (H.K.) Limited	Hong Kong 25 July 2002	Limited liability company	Ordinary shares HK\$10,000	100%	Trading of electronic parts
Sunwave Computers Limited	Hong Kong 20 August 1991	Limited liability company	Ordinary shares HK\$1,170,000	92%	Trading of computer components
Sunwave Development Limited	Hong Kong 18 September 1997	Limited liability company	Ordinary shares HK\$1,100,000	99%	Trading of electronic parts
Sytech Electronics Limited	Hong Kong 11 January 1999	Limited liability company	Ordinary shares HK\$1,000,000	100%	Trading of electronic parts
Tech-Link T & E Limited	Hong Kong 28 December 2000	Limited liability company	Ordinary shares HK\$500,000	100%	Trading of electronic parts
駿泰陽軟件科技(深圳)有限公司 Jun Tai Yang Software Technologies (Shenzhen) Limited	People's Republic of China ("PRC") 7 August 2000	Wholly foreign owned enterprise	Registered capital HK\$2,000,000	100%	Provision of technology solutions
駿泰陽科技(深圳)有限公司 Jun Tai Yang Technologies (Shenzhen) Limited	People's Republic of China ("PRC") 25 July 2003	Wholly foreign owned enterprise	Registered capital HK\$1,000,000	100%	Inactive

Note:

- (a) The Company directly holds the entire interest in Sunlink Technologies Holdings Limited. The interests of all other companies are indirectly held by the Company.

None of the subsidiaries had any loan capital outstanding at 31 December 2003 or at any time during the year.