

Notes to Financial Statements

31 March 2004

1. CORPORATE INFORMATION

The registered office of AV Concept Holdings Limited is located at Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, the Cayman Islands, British West Indies and its principal place of business is located at Units 11 – 15, 11th Floor, Block A, Focal Industrial Centre, 21 Man Lok Street, Hungghom, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- Marketing and distribution of electronic components
- Design, manufacture and original equipment manufacture of electronic products and Internet appliances

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 (Revised): “Income taxes” is effective for the first time for the current year’s financial statements. This SSAP prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

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

The measurement and recognition of deferred tax assets and liabilities relating to the difference between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liabilities would crystallise in the foreseeable future. A deferred tax has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

The disclosure of deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis.

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in notes 3 and 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

Joint venture companies

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

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

Notes to Financial Statements

31 March 2004

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

Joint venture companies *(continued)*

A joint venture company is treated as:

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

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five to twenty years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment where it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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.

Notes to Financial Statements

31 March 2004

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

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

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

| | |
|------------------------------------------|--------------------------------|
| Leasehold land | Over the remaining lease terms |
| Buildings | 2% |
| Leasehold improvements | 20% – 33⅓% |
| Furniture, fittings and office equipment | 20% – 33⅓% |
| Plant, machinery and tools | 20% – 50% |
| Motor vehicles | 20% |

Freehold land is not depreciated.

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

Fixed assets and depreciation *(continued)*

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

Intangible assets

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairments and are amortised using the straight-line basis over the estimated commercial lives of the underlying products ranging from two to five years, commencing from the date when the products are put into commercial production.

Other assets

Other assets held on a long term basis are stated at cost less any impairment losses, on an individual asset basis.

Leased assets

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

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

Notes to Financial Statements

31 March 2004

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

Long term investments

Long term investments in listed and unlisted equity securities intended to be held for a continuing strategic or long term purposes, are stated at cost less any impairment losses, on an individual investment basis.

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

Short term investments

Short term investments are investments in equity securities not held for an identified long term purpose and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The unrealised gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Allowance is made for any obsolete or slow-moving items. Net realisable value is based on estimated selling prices less any estimated costs to completion and disposal.

Cash and cash equivalents

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

Notes to Financial Statements

31 March 2004

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) commission income, in the accounting period in which the services are provided;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholder's right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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

Employee benefits *(continued)*

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer mandatory contributions vest fully with the employees when contributed into the MPF Scheme. The Group’s employer voluntary contributions are refundable to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary operating in Mainland China is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Dividends

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

Interim and special dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare such dividends. Consequently, interim and special dividends are recognised immediately as a liability when they are proposed and declared.

Notes to Financial Statements

31 March 2004

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

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates 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 at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

4. SEGMENT INFORMATION

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

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

- a. the marketing and distribution segment engages in the sale and distribution of electronic components; and
- b. the design and manufacture segment engages in the design, manufacture and original equipment manufacture of electronic products and Internet appliances.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 March 2004

4. SEGMENT INFORMATION (continued)

Business segments

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

Group

| | Marketing and distribution | | Design and manufacture | | Eliminations | | Consolidated | |
|------------------------------------------------------------------|----------------------------|------------------|------------------------|----------------|-----------------|-----------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 1,484,312 | 1,332,546 | 287,161 | 356,750 | – | – | 1,771,473 | 1,689,296 |
| Intersegment sales | 85,572 | 33,402 | 2,085 | 7,207 | (87,657) | (40,609) | – | – |
| Other revenue | 92 | 503 | 1,615 | 601 | – | – | 1,707 | 1,104 |
| | <u>1,569,976</u> | <u>1,366,451</u> | <u>290,861</u> | <u>364,558</u> | <u>(87,657)</u> | <u>(40,609)</u> | <u>1,773,180</u> | <u>1,690,400</u> |
| Segment results | <u>40,038</u> | <u>37,433</u> | <u>24,925</u> | <u>(5,144)</u> | <u>–</u> | <u>–</u> | <u>64,963</u> | <u>32,289</u> |
| Interest income | | | | | | | 27 | 492 |
| Dividend income | | | | | | | 2,327 | 657 |
| Unrealised holding gain/(loss) on a short term listed investment | | | | | | | 683 | (495) |
| Gain on partial disposal of a long term listed investment | | | | | | | 85,880 | – |
| Impairment of a long term unlisted investment | | | | | | | (975) | (975) |
| Impairment of other assets | | | | | | | (335) | (441) |
| Impairment of fixed assets | | | | | | | – | (553) |
| Impairment of goodwill | | | | | | | – | (958) |
| Unallocated expenses | | | | | | | (1,096) | (1,149) |
| Profit from operating activities | | | | | | | 151,474 | 28,867 |
| Finance costs | | | | | | | (9,077) | (10,125) |
| Share of profits and losses of associates | | | | | | | – | (1,204) |
| Amortisation of goodwill on acquisition of an associate | | | | | | | – | (240) |
| Profit before tax | | | | | | | 142,397 | 17,298 |
| Tax | | | | | | | (16,427) | (4,732) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | <u>125,970</u> | <u>12,566</u> |

Notes to Financial Statements

31 March 2004

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

| | Marketing and distribution | | Design and manufacture | | Consolidated | |
|-------------------------------------------------|----------------------------|----------|------------------------|----------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 391,314 | 375,775 | 309,863 | 147,953 | 701,177 | 523,728 |
| Unallocated assets | | | | | 93,122 | 45,645 |
| Total assets | | | | | 794,299 | 569,373 |
| Segment liabilities | (88,738) | (64,287) | (85,574) | (55,171) | (174,312) | (119,458) |
| Unallocated liabilities | | | | | (313,142) | (238,427) |
| Total liabilities | | | | | (487,454) | (357,885) |
| Other segment information: | | | | | | |
| Depreciation | 2,435 | 1,909 | 11,303 | 9,756 | 13,738 | 11,665 |
| Unallocated depreciation | | | | | 6 | 203 |
| | | | | | 13,744 | 11,868 |
| Amortisation and write off of intangible assets | - | - | 1,714 | 310 | 1,714 | 310 |
| Other non-cash expenses | - | - | - | - | 1,310 | 1,802 |
| Impairment of fixed assets | - | 553 | - | - | - | 553 |
| Impairment of goodwill | - | - | - | - | - | 958 |
| Provision for bad and doubtful debts | 1,890 | 1,760 | 1,505 | - | 3,395 | 1,760 |
| Capital expenditure | 4,634 | 2,408 | 23,061 | 5,581 | 27,695 | 7,989 |

Notes to Financial Statements

31 March 2004

4. SEGMENT INFORMATION *(continued)*

Geographical segments

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

Group

| | Hong Kong | | Mainland China | | Singapore | | Korea | | Other locations | | Consolidated | |
|-----------------------------------|-----------|-----------|----------------|----------|-----------|----------|----------|----------|-----------------|----------|--------------|-----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to | | | | | | | | | | | | |
| external customers | 1,486,703 | 1,204,097 | - | - | 193,942 | 144,021 | 50,842 | 327,455 | 39,986 | 13,723 | 1,771,473 | 1,689,296 |
| Other segment information: | | | | | | | | | | | | |
| Segment assets | 361,125 | 337,041 | 277,466 | 139,237 | 62,586 | 47,450 | - | - | - | - | 701,177 | 523,728 |
| Capital expenditure | 7,968 | 1,829 | 19,373 | 4,490 | 354 | 1,670 | - | - | - | - | 27,695 | 7,989 |

5. TURNOVER

Turnover comprises the net invoiced value of goods sold, net of returns and discounts and after the eliminations of intra-group transactions, and commissions received on distribution.

| | Group | |
|-------------------------------------------------------------------------------------------------------|------------------|------------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Marketing and distribution of electronic components | 1,484,312 | 1,332,546 |
| Design, manufacture and original equipment manufacture of electronic products and Internet appliances | 287,161 | 356,750 |
| | <u>1,771,473</u> | <u>1,689,296</u> |

Notes to Financial Statements

31 March 2004

6. PROFIT FROM OPERATING ACTIVITIES

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

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------------------------------------------------------------------|-------|------------------|------------------|
| Depreciation | 14 | 13,744 | 11,868 |
| Amortisation of intangible assets* | 15 | 1,528 | 310 |
| Write off of intangible assets* | 15 | 186 | – |
| Provision for bad and doubtful debts** | | 3,395 | 1,760 |
| Minimum lease payments under operating leases in respect of land and buildings | | 3,347 | 2,837 |
| Auditors' remuneration | | 950 | 988 |
| Impairment of interest in an associate** | 17 | – | 386 |
| Impairment of a long term unlisted investment** | 18 | 975 | 975 |
| Impairment of other assets** | 19 | 335 | 441 |
| Impairment of fixed assets | | – | 553 |
| Impairment of goodwill | | – | 958 |
| Staff costs (including directors' remuneration – note 8): | | | |
| Wages and salaries | | 50,182 | 40,789 |
| Pension scheme contributions | | 1,845 | 1,170 |
| Less: Forfeited contributions*** | | (474) | (193) |
| Net pension scheme contributions | | 1,371 | 977 |
| | | 51,553 | 41,766 |
| Gain on disposal of fixed assets | | (5) | (578) |
| Exchange (gains)/losses, net | | (64) | 530 |
| Unrealised holding (gain)/loss on a short term listed investment** | | (683) | 495 |
| Dividend income received from a long term listed investment | | (2,327) | (657) |
| Interest income | | (27) | (492) |

Notes to Financial Statements

31 March 2004

6. PROFIT FROM OPERATING ACTIVITIES *(continued)*

* The amortisation and write off of intangible assets for the year are included in "Cost of sales" on the face of the consolidated profit and loss account.

** All these items are included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** The amounts of forfeited contributions available to the Group to reduce contributions in future years are not material.

7. FINANCE COSTS

| | Group | |
|--------------------------------------------------------------------------|--------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | 8,879 | 9,820 |
| Interest on finance leases | 198 | 305 |
| | <u>9,077</u> | <u>10,125</u> |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|----------------------------------------------------------|---------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Fees | <u>100</u> | <u>100</u> |
| Other emoluments: | | |
| Salaries, housing, other allowances and benefits in kind | 10,527 | 9,081 |
| Pension scheme contributions | <u>452</u> | <u>352</u> |
| | <u>10,979</u> | <u>9,433</u> |
| | <u>11,079</u> | <u>9,533</u> |

Notes to Financial Statements

31 March 2004

8. DIRECTORS' REMUNERATION *(continued)*

Fees of HK\$100,000 (2003: HK\$100,000) were payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors for the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is set out below:

| | Number of directors | |
|-------------------------------|---------------------|----------|
| | 2004 | 2003 |
| Nil – HK\$1,000,000 | 4 | 5 |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 1 |
| HK\$2,500,001 – HK\$3,000,000 | 1 | 1 |
| HK\$4,500,001 – HK\$5,000,000 | – | 1 |
| HK\$5,000,001 – HK\$5,500,000 | 1 | – |
| | <u>7</u> | <u>8</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 3,900,000 share options were granted to the directors of the Company in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account or included in the above directors' remuneration disclosures.

Notes to Financial Statements

31 March 2004

9. FIVE HIGHEST PAID EMPLOYEES

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

| | Group | |
|-------------------------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 1,242 | 2,104 |
| Pension scheme contributions | — | 91 |
| | <u>1,242</u> | <u>2,195</u> |

The number of non-director, highest paid employees whose remuneration fell within the following band is set out below:

| | 2004 | 2003 |
|-------------------------------|---------------------|---------------------|
| | Number of employees | Number of employees |
| HK\$1,000,001 – HK\$1,500,000 | <u>1</u> | <u>2</u> |

During the year, 750,000 share options were granted to a non-director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at rates ranging from 11% to 22% (2003: 22%) in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

Notes to Financial Statements

31 March 2004

10. TAX (continued)

| | Group | |
|----------------------------------------------|---------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current: | | |
| Hong Kong – Charge for the year | 5,297 | 4,732 |
| Hong Kong – Overprovision in prior years | (636) | – |
| Elsewhere – Underprovision in prior years | 181 | – |
| Elsewhere – Charge for the year [#] | 10,186 | – |
| Deferred – note 27 | 1,399 | – |
| | <u>16,427</u> | <u>4,732</u> |
| Total tax charge for the year | <u>16,427</u> | <u>4,732</u> |

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate are as follows:

| | Group | |
|-----------------------------------------------------------|----------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit before tax | <u>142,397</u> | <u>17,298</u> |
| Tax at the applicable rates to | | |
| profits in the countries concerned [#] | 35,125 | 3,070 |
| Adjustments in respect of current tax of previous periods | (455) | – |
| Income not subject to tax | (16,690) | (711) |
| Expenses not deductible for tax purpose | 1,305 | 3,282 |
| Temporary differences not recognised | <u>(2,858)</u> | <u>(909)</u> |
| Tax charge at the Group's effective rate | <u>16,427</u> | <u>4,732</u> |

[#] Amount includes capital gains tax on gain on partial disposal of a long term listed investment.

Notes to Financial Statements

31 March 2004

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$89,672,000 (2003: HK\$1,248,000) (note 30(b)).

12. DIVIDENDS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-------------------------------------------------------------------|------------------|------------------|
| Interim – HK2.5 cents (2003: HK1 cent) per ordinary share | 10,079 | 3,615 |
| Special – HK10 cents (2003: Nil) per ordinary share | 40,508 | – |
| Proposed final – HK8 cents (2003: HK1 cent) per ordinary share | 32,407 | 3,615 |
| | <u>82,994</u> | <u>7,230</u> |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$125,970,000 (2003: HK\$12,566,000) and the weighted average of 378,318,857 (2003: 353,672,244) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 March 2004 and 2003 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

Notes to Financial Statements

31 March 2004

14. FIXED ASSETS

Group

| | Land and buildings (Hong Kong) HK\$'000 | Land and buildings (Overseas) HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fittings and office equipment HK\$'000 | Plant, machinery and tools HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------------------------|--------------------------------------------------|-------------------------------------------------|---------------------------------------|---------------------------------------------------------------|----------------------------------------------|-------------------------------|-------------------|
| At cost: | | | | | | | |
| At beginning of year | 20,970 | 8,761 | 16,227 | 9,654 | 56,689 | 6,256 | 118,557 |
| Additions | 1,882 | – | 798 | 2,527 | 20,292 | 1,083 | 26,582 |
| Disposals | – | – | – | (316) | (155) | – | (471) |
| Exchange realignment | – | 528 | – | 142 | – | 174 | 844 |
| At 31 March 2004 | <u>22,852</u> | <u>9,289</u> | <u>17,025</u> | <u>12,007</u> | <u>76,826</u> | <u>7,513</u> | <u>145,512</u> |
| Accumulated depreciation and impairment: | | | | | | | |
| At beginning of year | 11,639 | 2,367 | 9,774 | 7,342 | 25,720 | 2,809 | 59,651 |
| Provided during the year | 360 | 135 | 3,320 | 1,237 | 7,327 | 1,365 | 13,744 |
| Disposals | – | – | – | (74) | (138) | – | (212) |
| Exchange realignment | – | 170 | – | 129 | – | 63 | 362 |
| At 31 March 2004 | <u>11,999</u> | <u>2,672</u> | <u>13,094</u> | <u>8,634</u> | <u>32,909</u> | <u>4,237</u> | <u>73,545</u> |
| Net book value: | | | | | | | |
| At 31 March 2004 | <u>10,853</u> | <u>6,617</u> | <u>3,931</u> | <u>3,373</u> | <u>43,917</u> | <u>3,276</u> | <u>71,967</u> |
| At 31 March 2003 | <u>9,331</u> | <u>6,394</u> | <u>6,453</u> | <u>2,312</u> | <u>30,969</u> | <u>3,447</u> | <u>58,906</u> |

The land and buildings at cost included above are held under the following lease terms:

| | Hong Kong HK\$'000 | Overseas HK\$'000 | Total HK\$'000 |
|--------------------|-----------------------|----------------------|-------------------|
| Freehold | – | 9,289 | 9,289 |
| Medium term leases | <u>22,852</u> | <u>–</u> | <u>22,852</u> |
| | <u>22,852</u> | <u>9,289</u> | <u>32,141</u> |

Notes to Financial Statements

31 March 2004

14. FIXED ASSETS *(continued)*

Certain land and buildings with a carrying value of HK\$8,246,000 (2003: HK\$8,442,000) held by the Group were pledged to banks to secure certain bank borrowings and banking facilities granted to the Group (note 24).

The net carrying value of fixed assets held under finance leases as at 31 March 2004 included motor vehicles of HK\$1,468,000 (2003: HK\$1,981,000) and plant, machinery and tools of HK\$10,002,000 (2003: HK\$10,180,000). The depreciation charge for the year in respect of such assets amounted to HK\$1,782,000 (2003: HK\$1,883,000).

15. INTANGIBLE ASSETS

Group

| | Deferred development costs HK\$'000 |
|-----------------------------------|-------------------------------------------|
| Cost: | |
| At beginning of year | 3,341 |
| Additions | 1,113 |
| Write off – note 6 | (321) |
| | <hr/> |
| At 31 March 2004 | 4,133 |
| | <hr/> |
| Accumulated amortisation: | |
| At beginning of year | 310 |
| Provided during the year – note 6 | 1,528 |
| Write off – note 6 | (135) |
| | <hr/> |
| At 31 March 2004 | 1,703 |
| | <hr/> |
| Net book value: | |
| At 31 March 2004 | 2,430 |
| | <hr/> <hr/> |
| At 31 March 2003 | 3,031 |
| | <hr/> <hr/> |

Notes to Financial Statements

31 March 2004

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted shares, at cost | 55,015 | 55,015 |
| Due from subsidiaries | 197,877 | 139,009 |
| Due to subsidiaries | (15,676) | (15,676) |
| | <u>237,216</u> | <u>178,348</u> |
| Provision for impairment | (16,564) | (16,344) |
| | <u>220,652</u> | <u>162,004</u> |

The amounts due from/(to) subsidiaries included in the Company's balance sheet are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Equity interest attributable to the Company | | Principal activities |
|---------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------|----------|---------------------------------------------------------------------------------------|
| | | | Direct | Indirect | |
| AV Electronics Group Limited | British Virgin Islands/ Hong Kong | US\$40,000 | 100% | – | Investment holding |
| AVT Holdings Limited | British Virgin Islands/ Hong Kong | US\$1 | 100% | – | Investment holding |
| AV Chaseway Limited | Hong Kong | HK\$10,000,000 | – | 100% | Manufacture and trading of electronic products and Internet appliances |

Notes to Financial Statements

31 March 2004

16. INTERESTS IN SUBSIDIARIES *(continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Equity interest attributable to the Company | | Principal activities |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------|----------|--------------------------------------------------------------------|
| | | | Direct | Indirect | |
| AV Concept (China) Industrial Co., Limited | Hong Kong | HK\$10,000 | – | 100% | Investment holding |
| AV Concept Limited | Hong Kong | HK\$2 | – | 100% | Trading of electronic components |
| | | HK\$1,000,000 [@] | – | 100% | |
| AVC Technology Limited | Hong Kong | HK\$9,900,000 | – | 100% | Trading of electronic products and Internet appliances |
| | | HK\$100,000 [@] | – | 100% | |
| AV Concept Singapore Pte. Ltd (formerly known as Bostex Electronics Pte Ltd) | Singapore | S\$4,000,000 | – | 100% | Trading of electronic components |

[@] Represents deferred shares issued by AV Concept Limited and AVC Technology Limited.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

31 March 2004

17. INTERESTS IN ASSOCIATES

| | Group | |
|-----------------------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 386 | 386 |
| Goodwill on acquisition | 958 | 958 |
| | <u>1,344</u> | <u>1,344</u> |
| Provision for impairment – note 6 | (1,344) | (1,344) |
| | <u><u>–</u></u> | <u><u>–</u></u> |

Particulars of the associates are as follows:

| Name | Business structure | Place of incorporation/ registration and operations | Equity interest attributable to the Group | | Principal activities |
|------------------------------------------------------------------------|--------------------|--------------------------------------------------------|-------------------------------------------|------|-----------------------------------------------------------------------------------------------------------------|
| | | | 2004 | 2003 | |
| Easyband Broadband Holdings Limited (“Easyband”) * (Note) | Corporate | British Virgin Islands | 36% | 36% | Investment holding |
| Easyband Technology (Guangzhou) Co., Limited (“GZ Easyband”) * (Note)# | Corporate | People's Republic of China/ Mainland China | 36% | 36% | Trading of hardware and software products and the provision of broadband and related technical support services |
| Guangzhou Thinker E-Commerce Co., Ltd. (“Thinker”) * | Corporate ** | People's Republic of China/ Mainland China | 35% | 35% | Provision of systems integration and e-commerce related services |

GZ Easyband was incorporated and registered in the People's Republic of China on 15 May 2002.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** This associate has no issued share capital and is formed under a joint venture agreement.

Notes to Financial Statements

31 March 2004

17. INTERESTS IN ASSOCIATES *(continued)*

Each of the above associates has a financial year end of 31 December. The consolidated financial statements have been adjusted for material transactions between these associates and the Company and its subsidiaries for the period from 1 January to 31 March.

The interests in Easyband and Thinker are held through a wholly-owned subsidiary of the Group.

Note: In the prior year, an impairment loss of HK\$1,344,000 (representing the Group's share of net assets in Easyband of HK\$386,000 plus its unamortised goodwill of HK\$958,000) was charged to the consolidated profit and loss account.

18. LONG TERM INVESTMENTS

| | Group | | Company | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Listed equity investment, at cost | 27,811 | – | 26,429 | – |
| Unlisted equity investment, at cost | 1,950 | 34,812 | – | 31,480 |
| Provision for impairment – note 6 | (1,950) | (975) | – | – |
| | <u>27,811</u> | <u>33,837</u> | <u>26,429</u> | <u>31,480</u> |

Long term investments represent a 12.4% (2003: 19.4%) equity interest in Reigncom Limited (“Reigncom”) and an investment in preference shares of Digital 5 Inc., (“Digital 5”). In the opinion of the directors, the Group is not in a position to exercise significant influence over Reigncom and Digital 5 and accordingly, they are treated as long term investments.

Reigncom is a Korean company and together with its subsidiaries are principally engaged in the design and sale of MP3 players and other electronic products worldwide. On 19 December 2003, Reigncom was listed on the KOSDAQ Stock Exchange, Inc. (the “KOSDAQ”) in the Republic of Korea. Immediately after the listing of Reigncom's shares on the KOSDAQ, the Company's equity interest in Reigncom was diluted from 19.4% to 14.7%.

Notes to Financial Statements

31 March 2004

18. LONG TERM INVESTMENTS *(continued)*

On 28 January 2004, the Company entered into an agreement with a placing agent to place 150,000 shares in Reigncom (the "Reigncom Placing Shares") held by the Company at an aggregate consideration of HK\$92,598,000 (the "Reigncom Placing"). Upon completion of the Reigncom Placing, the Company's equity interest in Reigncom was further reduced from 14.7% (representing 975,840 shares in Reigncom) to 12.4% (representing 825,840 shares in Reigncom). The Reigncom Placing resulted in a gain of HK\$85,880,000, net of the cost of the Reigncom Placing Shares of HK\$5,051,000, and placing fees and sales taxes paid of HK\$1,667,000. In connection with the gain on partial disposal of Reigncom, the Group recorded a capital gains tax payable of HK\$10,186,000 (note 10).

The market value of the long term listed equity investment at the balance sheet date and at the date of approval of these financial statements was approximately HK\$535,788,000 and HK\$440,937,000, respectively.

19. OTHER ASSETS

| | Group | |
|-----------------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Other assets, at cost | 2,768 | 2,768 |
| Provision for impairment – note 6 | (776) | (441) |
| Exchange realignment | 65 | – |
| | <u>2,057</u> | <u>2,327</u> |

20. SHORT TERM INVESTMENT

| | Group | |
|--------------------------------------------------------|--------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Listed equity investment in Hong Kong, at market value | <u>2,062</u> | <u>1,379</u> |

Notes to Financial Statements

31 March 2004

21. INVENTORIES

| | Group | |
|------------------|----------------|----------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 56,561 | 47,070 |
| Work in progress | 6,368 | 8,506 |
| Finished goods | 152,635 | 150,835 |
| | <u>215,564</u> | <u>206,411</u> |

The carrying amount of inventories included in the above that are carried at net realisable value is approximately HK\$44,753,000 (2003: HK\$39,480,000).

22. TRADE RECEIVABLES

Trading terms with customers vary with the type of products supplied. Invoices are normally payable within 30 days of issuance, except for well-established customers, where the terms are extended to 60 days. On customer-specific and highly specialised items, deposits in advance or letters of credit may be required prior to the acceptance and delivery of the products. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. A credit committee consisting of senior management and the directors of the Group has been established to review and approve large customer credits.

An aged analysis of the trade receivables at 31 March 2004, based on invoice due date and stated net of provision for doubtful debts, is as follows:

| | Group | |
|--------------------|----------------|----------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Trade receivables: | | |
| Current | 167,064 | 111,215 |
| Less than 30 days | 93,983 | 43,583 |
| 31 – 60 days | 16,499 | 15,576 |
| Over 60 days | 18,793 | 13,410 |
| | <u>296,339</u> | <u>183,784</u> |

Notes to Financial Statements

31 March 2004

23. TRADE PAYABLES AND ACCRUED EXPENSES

An aged analysis of the trade payables at 31 March 2004, based on invoice due date, is as follows:

| | Group | | Company | |
|-------------------|----------------|----------------|------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Trade payables: | | | | |
| Current | 85,348 | 55,671 | — | — |
| Less than 30 days | 60,323 | 50,072 | — | — |
| 31 – 60 days | 8,535 | 2,270 | — | — |
| Over 60 days | 1,723 | 1,707 | — | — |
| | <u>155,929</u> | <u>109,720</u> | <u>—</u> | <u>—</u> |
| Accrued expenses | 19,068 | 10,224 | 625 | 407 |
| | <u>174,997</u> | <u>119,944</u> | <u>625</u> | <u>407</u> |

24. INTEREST-BEARING BANK BORROWINGS

| | Group | |
|------------------------------------------------------|----------------|----------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Amounts repayable within one year or on demand: | | |
| Revolving bank loans under trade facilities, secured | — | 4,000 |
| Import and trust receipt loans | 252,591 | 225,009 |
| | <u>252,591</u> | <u>229,009</u> |

Certain of the above bank borrowings and of the Group's banking facilities are secured by fixed charges over certain of the land and buildings held by the Group, which had a net carrying value at the balance sheet date of approximately HK\$8,246,000 (2003: HK\$8,442,000) (note 14).

Notes to Financial Statements

31 March 2004

25. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and plant and machinery for its marketing and distribution business and design and manufacture business, respectively. These leases are classified as finance leases and have remaining lease terms ranging from two to six years.

At 31 March 2004, the total future minimum lease payments under finance leases and their present values were as follows:

Group

| | Minimum lease payments 2004 HK\$'000 | Minimum lease payments 2003 HK\$'000 | Present value of minimum lease payments 2004 HK\$'000 | Present value of minimum lease payments 2003 HK\$'000 |
|---------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Amounts payable: | | | | |
| Within one year | 2,767 | 2,759 | 2,629 | 2,638 |
| In the second year | 2,302 | 828 | 2,223 | 771 |
| In the third to fifth years, inclusive | 1,250 | 819 | 1,152 | 716 |
| After five years | 111 | 285 | 94 | 241 |
| Total minimum finance lease payments | 6,430 | 4,691 | 6,098 | 4,366 |
| Future finance charges | (332) | (325) | | |
| Total net finance lease payables | 6,098 | 4,366 | | |
| Portion classified as current liabilities | (2,629) | (2,638) | | |
| Long term portion of finance lease payables | 3,469 | 1,728 | | |

26. OTHER LONG TERM PAYABLE

The other long term payable represented the long term portion of an amount payable for the acquisition of a sports and social club debenture.

Notes to Financial Statements

31 March 2004

27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

DEFERRED TAX LIABILITIES

Accelerated tax depreciation

| | Group | |
|-------------------------------------------------------------------------------|--------------|------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| At beginning of year | 301 | 301 |
| Deferred tax charged to the profit and loss account during the year – note 10 | 1,553 | – |
| | <u>1,553</u> | <u>–</u> |
| Gross deferred tax liabilities at end of year | <u>1,854</u> | <u>301</u> |

DEFERRED TAX ASSETS

Losses available for offset against future taxable profit

| | Group | |
|--------------------------------------------------------------------------------|------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| At beginning of year | – | – |
| Deferred tax credited to the profit and loss account during the year – note 10 | 154 | – |
| | <u>154</u> | <u>–</u> |
| Gross deferred tax assets at end of year | <u>154</u> | <u>–</u> |

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

Notes to Financial Statements

31 March 2004

28. SHARE CAPITAL

Shares

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---------------------------------------------------------------------|-------------------------|-------------------------|
| Authorised: | | |
| 800,000,000 ordinary shares of HK\$0.10 each | <u>80,000</u> | <u>80,000</u> |
| Issued and fully paid: | | |
| 405,082,419 (2003: 361,532,419) ordinary shares of HK\$0.10 each | <u>40,508</u> | <u>36,153</u> |

During the year, the movements in the Company's share capital were as follows:

- (a) On 9 December 2003, B.K.S. Company Limited, the controlling shareholder of the Company (the "Controlling Shareholder") placed through a placing agent, VC CEF Brokerage Limited, a total number of 17,000,000 ordinary shares in the Company at a price of HK\$0.80 per share to not less than six independent third party investors (the "Placing"). The Placing was completed on 12 December 2003.

Pursuant to the subscription agreement dated 9 December 2003 entered into between the Company and the Controlling Shareholder, the Controlling Shareholder also subscribed for 17,000,000 new ordinary shares of the Company at a subscription price of HK\$0.80 per share upon completion of the Placing (the "Subscription"). The Subscription was completed on 22 December 2003. The net proceeds from the Subscription of HK\$13,218,000 were used to finance new product development, the marketing of the Group's original design manufactured MP3 players and the expansion in the Group's manufacturing facilities in Mainland China.

- (b) During the year, the subscription rights attached to 26,550,000 share options were exercised by certain employees of the Company at the subscription price of HK\$0.304 per share (note 29), resulting in the issue of 26,550,000 shares of HK\$0.10 each for a total cash consideration of HK\$8,071,000.

Notes to Financial Statements

31 March 2004

28. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital and share premium account is as follows:

| | Number of shares in issue | Issued share capital <i>HK\$'000</i> | Share premium account <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|------------------------------------------------|------------------------------|-----------------------------------------------|------------------------------------------------|--------------------------|
| At 1 April 2002 | 236,321,613 | 23,632 | 121,507 | 145,139 |
| Rights issue | 119,510,806 | 11,951 | 19,121 | 31,072 |
| Share options exercised during the year | 5,700,000 | 570 | 686 | 1,256 |
| | 361,532,419 | 36,153 | 141,314 | 177,467 |
| Share issue expenses | – | – | (1,948) | (1,948) |
| At 31 March 2003 and 1 April 2003 | 361,532,419 | 36,153 | 139,366 | 175,519 |
| Placement of shares (a) | 17,000,000 | 1,700 | 11,900 | 13,600 |
| Share options exercised during the year (b) | 26,550,000 | 2,655 | 5,416 | 8,071 |
| | 405,082,419 | 40,508 | 156,682 | 197,190 |
| Share issue expenses | – | – | (382) | (382) |
| At 31 March 2004 | 405,082,419 | 40,508 | 156,300 | 196,808 |

Share options

Details of the Company's share option schemes and the movements in share options under the schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEMES

On 1 April 1996, the Company adopted a share option scheme (the “Old Scheme”) under which the directors may, at their discretion, grant options to the executive directors of the Company and employees of the Group to subscribe for ordinary shares in the Company. In order to comply with the new requirements of Chapter 17 of the Listing Rules, a new share option scheme was approved at the extraordinary general meeting held on 13 May 2002 (the “New Scheme”). All share options granted prior to such amendment shall continue to be valid and exercisable in accordance with the Old Scheme. The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The New Scheme became effective on 13 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than the expiry date of the New Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Notes to Financial Statements

31 March 2004

29. SHARE OPTION SCHEMES (continued)

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

The following share options were outstanding under the New and Old Schemes during the year:

| Name or category of participant | Number of share options | | | | | Date of grant of share options | Exercise period of share options (both dates inclusive) | Exercise price of share options | Company's share price at grant date of share options |
|---------------------------------|-------------------------|-------------------------|---------------------------|------------------------|------------------|--------------------------------|---------------------------------------------------------|---------------------------------|------------------------------------------------------|
| | At 1 April 2003 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 March 2004 | | | | |
| | | | (Note 4) | | | (Note 1) | | (Note 2) HK\$ | (Note 3) HK\$ |
| Directors | | | | | | | | | |
| Lee Jeong Kwan | – | 2,000,000 [#] | – | – | 2,000,000 | 23 March 2004 | 23 March 2005 – 12 May 2012 | 1.52 | 1.55 |
| Lai Yun Wing | – | 1,000,000 [#] | – | – | 1,000,000 | 23 March 2004 | 23 March 2005 – 12 May 2012 | 1.52 | 1.55 |
| Lai Yat Hung, Edmund | – | 500,000 [#] | – | – | 500,000 | 23 March 2004 | 23 March 2005 – 12 May 2012 | 1.52 | 1.55 |
| Lai Yat Hung, Edmund | 4,125,000 [@] | – | – | (4,125,000) | – | 28 December 1999 | 28 June 2000 – 27 June 2003 | 0.72* | 1.72 |
| Lai Yat Hung, Edmund | 2,250,000 [@] | – | – | (2,250,000) | – | 20 October 2000 | 20 April 2001 – 19 April 2003 | 0.31* | 0.53 |
| So Chi On | – | 400,000 [#] | – | – | 400,000 | 23 March 2004 | 23 March 2005 – 12 May 2012 | 1.52 | 1.55 |
| Sub-total | 6,375,000 | 3,900,000 | – | (6,375,000) | 3,900,000 | | | | |
| Other employees | | | | | | | | | |
| In aggregate | 4,125,000 [@] | – | – | (4,125,000) | – | 28 December 1999 | 28 June 2000 – 27 June 2003 | 0.72* | 1.72 |
| | 3,000,000 [@] | – | – | (3,000,000) | – | 20 October 2000 | 20 April 2001 – 19 April 2003 | 0.31* | 0.53 |
| | 27,000,000 [#] | – | (26,550,000) | (450,000) | – | 22 May 2002 | 23 May 2002 – 12 May 2012 | 0.304* | 0.31 |
| | – | 11,100,000 [#] | – | – | 11,100,000 | 23 March 2004 | 23 March 2005 – 12 May 2012 | 1.52 | 1.55 |
| Sub-total | 34,125,000 | 11,100,000 | (26,550,000) | (7,575,000) | 11,100,000 | | | | |
| Total | 40,500,000 | 15,000,000 | (26,550,000) | (13,950,000) | 15,000,000 | | | | |

#

@

*

The number of outstanding share options granted under the New Scheme.

The number of outstanding share options under the Old Scheme.

The exercise prices of these share options were adjusted from HK\$1.08 to HK\$0.72; HK\$0.47 to HK\$0.31 and HK\$0.346 to HK\$0.304 per share after taking into account of the effect of rights issue completed in the prior year.

29. SHARE OPTION SCHEMES *(continued)*

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
3. The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.
4. During the year, certain employees exercised a total of 26,550,000 share options, of which the weighted average of the Stock Exchange closing price immediately before the dates on which those options were exercised was HK\$0.76 per share.

During the year, the 26,550,000 share options exercised resulted in the issue of 26,550,000 ordinary shares of the Company and new share capital of HK\$2,655,000 and share premium of HK\$5,416,000, as detailed in note 28 to the financial statements.

At the balance sheet date, the Company had 15,000,000 share options outstanding under the New Scheme, which represented approximately 3.7% of the Company's shares in issue as at that date. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 15,000,000 additional ordinary shares of the Company and additional share capital of HK\$1,500,000 and share premium of HK\$21,300,000 (before issue expenses).

Notes to Financial Statements

31 March 2004

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 29 and 30 of the financial statements.

The amounts of goodwill remaining in the consolidated retained profits as at 31 March 2004 which arose from the acquisition of certain subsidiaries prior to 1 April 2001 amounted to HK\$12,470,000. During the year under review, in the opinion of the directors, there have been no impairments in values of the goodwill.

(b) Company

| | | Share premium account | Capital redemption reserve | Retained profits | Total |
|--------------------------------------|-------|-----------------------------|----------------------------------|---------------------|-------------------|
| | Notes | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2002 | | 121,507 | 12,491 | 8,287 | 142,285 |
| Rights issue | 28 | 19,121 | – | – | 19,121 |
| Exercise of share options | 28 | 686 | – | – | 686 |
| Share issue expenses | 28 | (1,948) | – | – | (1,948) |
| Interim 2003 dividend | 12 | – | – | (3,615) | (3,615) |
| Proposed final 2003 dividend | 12 | – | – | (3,615) | (3,615) |
| Net profit for the year | | – | – | 1,248 | 1,248 |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 March 2003 and 1 April 2003 | | 139,366 | 12,491 | 2,305 | 154,162 |
| Issue of shares | 28 | 11,900 | – | – | 11,900 |
| Exercise of share options | 28 | 5,416 | – | – | 5,416 |
| Share issue expenses | 28 | (382) | – | – | (382) |
| Interim 2004 dividend | 12 | – | – | (10,079) | (10,079) |
| Special 2004 dividend | 12 | – | – | (40,508) | (40,508) |
| Proposed final 2004 dividend | 12 | – | – | (32,407) | (32,407) |
| Net profit for the year | | – | – | 89,672 | 89,672 |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 March 2004 | | <u>156,300</u> | <u>12,491</u> | <u>8,983</u> | <u>177,774</u> |

In accordance with the Companies Law (2003 Revision) of the Cayman Islands, the share premium account is distributable in certain circumstances.

Notes to Financial Statements

31 March 2004

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$7,835,000 (2003: HK\$3,171,000).

32. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|-------------------------------------------------------|---------------|--------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Guarantees given in respect of facilities granted to: | | | | |
| Subsidiaries* | – | – | 693,009 | 440,809 |
| A supplier | 3,900 | 3,900 | – | – |
| Bills discounted with recourse | 10,654 | – | – | – |
| | <u>14,554</u> | <u>3,900</u> | <u>693,009</u> | <u>440,809</u> |

* At the balance sheet date, an amount of HK\$325,208,000 (2003: HK\$270,536,000) had been utilised by subsidiaries of the Company.

Notes to Financial Statements

31 March 2004

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its factory buildings and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years.

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

| | Group | |
|-----------------------------------------|---------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Within one year | 3,269 | 2,752 |
| In the second to fifth years, inclusive | 9,781 | 9,195 |
| After five years | 567 | 2,663 |
| | <u>13,617</u> | <u>14,610</u> |

At the balance sheet date, the Company had no operating lease arrangements (2003: Nil).

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following commitments at the balance sheet date:

| | Group | |
|---------------------------------------------------------------------------|---------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Capital commitments on the acquisition of fixed assets, contracted for | <u>33,210</u> | <u>3,233</u> |

At the balance sheet date, the Company had no significant commitments (2003: Nil).

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 June 2004.