

1. CORPORATE INFORMATION

The principal place of business of the Company is located at Unit H, 1st Floor, Phase 4, Kwun Tong Industrial Centre, Nos. 436-446 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong.

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

- design, manufacture and distribution of production lines and production equipment
- distribution of brand name production equipment

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

SSAP 12 (Revised) “Income taxes” is effective for the first time for the current year’s financial statements. SSAP 12 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:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully 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 liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 27 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 and note 27 to the financial statements. The directors are of the opinion that the impact of the revised SSAP 12 on prior years’ financial statements is immaterial.

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 (the “Companies Ordinance”). They have been prepared under the historical cost convention, except for the periodic revaluation of investment property and leasehold land and buildings 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 the 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 or 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 company

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture company (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.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associate

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 the associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries, the associate and the jointly-controlled entity represents the excess of the cost of the acquisition over the Group's share of the 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 years. In the case of the associate and the jointly-controlled entity, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, the associate or the jointly-controlled entity, 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.

The carrying amount of goodwill is reviewed annually and written down for impairment when 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.

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:

- 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;
- from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;
- from the rendering of sub-contracting services, based on the stage of completion of the contract, provided that the revenues and the costs incurred can be measured reliably. The stage of completion of a contract is established by reference to the physical completion of a particular phase of the contract. Foreseeable losses on contracts in progress are recognised in full when identified;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- rental income, on a time proportion basis over the lease terms;
- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- dividend income, when the shareholders' right to receive payment has been established.

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, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than the investment property, are stated at cost or valuation less accumulated depreciation and any impairment losses. The original 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 the fixed assets have been put into operation, such as repairs and maintenance, 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.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated to write off the cost or valuation of each asset over its estimated useful life. Except for the leasehold land and buildings which are depreciated on a straight-line basis, all of the fixed assets are depreciated on a reducing balance basis. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% to 4.5%
Machinery and equipment	9% to 25%
Furniture, fixtures and leasehold improvements	18% to 25%
Motor vehicles	25%

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 amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

The investment property is an interest in land and building in respect of which construction work and development have been completed and which is intended to be held on a long term basis for its investment potential, any rental income being negotiated at arm's length. Such property is not depreciated and is stated at its open market value on the basis of annual professional valuations performed at the end of each financial year.

Changes in the value of the investment property are dealt with as movements in the investment property revaluation reserve. If the reserve is insufficient to cover a deficit, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of the investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of sub-contracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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:

- 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
- in respect of taxable temporary differences associated with investments in subsidiaries, the associate and the interest in joint venture, 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:

- 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
- in respect of deductible temporary differences associated with investments in subsidiaries, the associate and the interest in joint venture, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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.

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 lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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 MPF 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 contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded 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 subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are 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 scheme

The Company operates a share option scheme 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.

Intangible asset – Technical know-how

The cost of acquiring the rights to technical know-how for the manufacture of new products is amortised using the straight-line basis over the estimated useful lives of the know-how of not exceeding five years, commencing from the date when the new products are available for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production/use.

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 dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 ruling 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.

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.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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:

Continuing operations:

- (a) the production lines and production equipment segment consists of the design, manufacture and sale of production lines and production equipment; and
- (b) the brand name production equipment segment consists of the trading and distribution of brand name production equipment;

Discontinued operations:

- (a) the consumer products segment consisted of the design, manufacture and sale of consumer products; and
- (b) the sub-contracting services segment consisted of the provision of sub-contracting services.

In determining the Group's geographical segments, revenues and results 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.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, results and certain asset, liability and expenditure information for the Group's business segments.

Group

	Continuing operations				Discontinued operations					
	Production lines and production equipment		Brand name production equipment		Sub-contracting Consumer products services				Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	304,069	288,778	139,149	73,727	-	119,970	-	19,597	443,218	502,072
Other revenue – external	818	448	-	-	-	-	-	-	818	448
Total	304,887	289,226	139,149	73,727	-	119,970	-	19,597	444,036	502,520
Segment results	19,204	(25,775)	25,856	9,372	-	(11,080)	-	(14,541)	45,060	(42,024)
Interest and unallocated income									760	1,997
Unallocated expenses									(3,800)	(2,643)
Profit/(loss) from operating activities									42,020	(42,670)
Finance costs									(1,462)	(1,976)
Share of losses of:										
A jointly-controlled entity									(127)	-
An associate									(85)	-
Profit/(loss) before tax									40,346	(44,646)
Tax									(206)	(1,570)
Net profit/(loss) from ordinary activities attributable to shareholders									40,140	(46,216)

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Continuing operations				Discontinued operations				Consolidated	
	Production lines and production equipment		Brand name production equipment		Consumer products		Sub-contracting services		2004	2003
	2004	2003	2004	2003	2004	2003	2004	2003		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	421,275	314,701	41,467	19,530	-	-	-	-	462,742	334,231
Unallocated assets									15,276	14,463
Total assets									478,018	348,694
Segment liabilities	101,229	66,612	39,065	17,667	-	-	-	-	140,294	84,279
Unallocated liabilities									72,951	59,954
Total liabilities									213,245	144,233
Other segment information:										
Depreciation and amortisation	20,035	19,580	-	-	-	4,479	-	6,637	20,035	30,696
Capital expenditure	16,850	17,690	-	-	-	1,097	-	3,103	16,850	21,890
Deficit on revaluation of leasehold land and buildings	14	34	-	-	-	-	-	-	14	34
Deficit/(surplus) on revaluation of investment property	(100)	130	-	-	-	-	-	-	(100)	130
Provision/(write-back of provision) for doubtful debts	(6,147)	9,117	-	-	-	5,369	-	-	(6,147)	14,486

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		European Union		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	115,035	97,195	315,875	284,096	4,645	96,141	7,663	24,640	443,218	502,072
Other segment information:										
Segment assets	227,117	53,557	250,901	295,137	-	-	-	-	478,018	348,694
Capital expenditure	623	20	16,227	21,870	-	-	-	-	16,850	21,890

5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the net invoiced value of the services provided; and an appropriate proportion of contract revenue of a construction contract. All significant intra-Group transactions have been eliminated on consolidation.

An analysis of turnover and other revenue is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of goods	437,227	482,475
Provision of sub-contracting services	-	19,597
Construction contract	5,991	-
	443,218	502,072
Other revenue		
Interest income	238	622
Gross and net rental income	83	84
Others	1,257	1,360
	1,578	2,066
	444,796	504,138

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		339,139	433,057
Cost of services provided		–	14,682
Auditors' remuneration		900	720
Depreciation	14	14,637	25,562
Minimum lease payments under operating leases:			
Land and buildings		961	3,715
Machinery and equipment		–	293
Staff costs (excluding directors' remuneration – note 7):			
Wages and salaries		42,356	58,379
Pension scheme contributions		862	770
		43,218	59,149
Less: Amount included in research and development costs		(2,712)	(715)
		40,506	58,434
Amortisation of technical know-how*	15	5,398	5,134
Research and development costs		6,755	2,355
Deficit/(surplus) on revaluation of investment property	14	(100)	130
Deficit on revaluation of leasehold land and buildings	14	14	34
Provision/(write-back of provision) for doubtful debts		(6,147)	14,486
Provision for slow-moving inventories		–	1,893
Loss on disposal of fixed assets		48	83
Foreign exchange losses, net		64	888

* The amortisation of technical know-how for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

As at 31 March 2004, the Group had no forfeited contributions available to offset its employer contributions to the pension scheme in future years (2003: Nil).

7. DIRECTORS' REMUNERATION

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	360	360
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	2,834	3,348
Pension scheme contributions	48	78
	3,242	3,786

The remuneration for the year of each of the directors fell within the nil – HK\$1,000,000 band.

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2003: one) non-director, highest paid employee for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salary, allowances and benefits in kind	469	421
Pension scheme contributions	12	12
	481	433

The remuneration for the year of the non-director, highest paid employee fell within the nil – HK\$1,000,000 band.

9. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans		
wholly repayable within five years	1,327	1,694
Interest on finance leases	135	282
	1,462	1,976

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 the rate of taxes prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004	2003
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	7,567	–
Current – Elsewhere		
Charge for the year	734	2,868
Overprovision in prior years	(8,699)	(1,978)
Deferred – (note 27)	604	680
Total tax charge for the year	206	1,570

10. TAX (continued)

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

Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	38,135		2,211		40,346	
Tax at the statutory tax rate	6,674	17.5	730	33.0	7,404	18.4
Lower tax rate for specific provinces or local authorities	–	–	(810)	(36.6)	(810)	(2.0)
Adjustments in respect of current tax of previous periods	–	–	(8,699)	(393.4)	(8,699)	(21.6)
Income not subject to tax	(224)	(0.6)	(745)	(33.7)	(969)	(2.4)
Expenses not deductible for tax	851	2.2	153	6.9	1,004	2.5
Tax losses utilised from previous periods	(160)	(0.4)	–	–	(160)	(0.4)
Tax losses not recognised	–	–	1,406	63.6	1,406	3.5
Other temporary differences	1,104	2.9	–	–	1,104	2.7
Others	(74)	(0.2)	–	–	(74)	(0.2)
Tax charge at the Group's effective rate	8,171	21.4	(7,965)	(360.2)	206	0.5

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(53,476)		8,830		(44,646)	
Tax at the statutory tax rate	(8,556)	(16.0)	2,914	33.0	(5,642)	(12.6)
Lower tax rate for specific provinces or local authorities	–	–	(410)	(4.6)	(410)	(0.9)
Adjustments in respect of current tax of previous periods	–	–	(1,978)	(22.4)	(1,978)	(4.4)
Income not subject to tax	(1,963)	(3.7)	(937)	(10.6)	(2,900)	(6.5)
Expenses not deductible for tax	5,618	10.5	–	–	5,618	12.6
Tax losses not recognised	3,931	7.4	1,301	14.7	5,232	11.7
Other temporary differences	1,508	2.8	–	–	1,508	3.3
Others	142	0.3	–	–	142	0.3
Tax charge at the Group's effective rate	680	1.3	890	10.1	1,570	3.5

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 March 2004 was HK\$18,723,000 (2003: net loss of HK\$2,175,000).

12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim – 1.2 cents (2003: Nil) per ordinary share	4,200	–
Proposed final – 2.0 cents (2003: Nil) per ordinary share	7,000	–
	11,200	–

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/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$40,140,000 (2003: net loss of HK\$46,216,000) and the weighted average of 330,843,836 (2003: 312,000,000) shares in issue during the year.

No diluted earnings per share for both the current and prior year has been calculated as no diluting events existed during these years.

14. FIXED ASSETS

Group

	Investment property HK\$'000	Leasehold land and buildings HK\$'000	Machinery and equipment HK\$'000	Furniture, fixtures and leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 April 2003	1,120	109,370	54,908	15,884	6,046	187,328
Additions	–	–	11,324	3,342	2,184	16,850
Disposals	–	–	–	–	(299)	(299)
Surplus/(deficit) on revaluation	100	(2,248)	–	–	–	(2,148)
Exchange realignments	–	58	43	27	14	142
At 31 March 2004	1,220	107,180	66,275	19,253	7,945	201,873
Accumulated depreciation:						
At 1 April 2003	–	–	23,913	5,442	3,155	32,510
Provided during the year	–	5,522	6,342	2,250	523	14,637
Disposals	–	–	–	–	(45)	(45)
Written back on revaluation	–	(5,526)	–	–	–	(5,526)
Exchange realignments	–	4	8	6	4	22
At 31 March 2004	–	–	30,263	7,698	3,637	41,598
Net book value:						
At 31 March 2004	1,220	107,180	36,012	11,555	4,308	160,275
At 31 March 2003	1,120	109,370	30,995	10,442	2,891	154,818
Analysis of cost or valuation:						
At cost	–	–	66,275	19,253	7,945	93,473
At valuation	1,220	107,180	–	–	–	108,400
	1,220	107,180	66,275	19,253	7,945	201,873

14. FIXED ASSETS (continued)

The revaluation of leasehold land and buildings situated in Hong Kong and Mainland China of HK\$3,280,000 (2003: HK\$3,370,000) and HK\$103,900,000 (2003: HK\$106,000,000), respectively, were carried out by Castores Magi Surveyors Limited ("Castores"), an independent firm of professionally qualified valuers, on the open market, existing use basis and the depreciated replacement cost basis, respectively, on 31 March 2004. The surplus of HK\$3,292,000 (2003: deficit of HK\$14,000) and deficit of HK\$14,000 (2003: HK\$34,000) so arising have been credited to the asset revaluation reserve and charged to the profit and loss account, respectively. The Group's investment property was revalued on 31 March 2004 on the open market, existing use basis by Castores at HK\$1,220,000 (2003: HK\$1,120,000). The surplus of HK\$100,000 (2003: deficit of HK\$130,000) so arising has been credited to the profit and loss account.

Had these leasehold land and buildings been stated at cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK\$99,729,000 (2003: HK\$103,734,000).

The net book values of the fixed assets of the Group held under finance leases included in the total amounts of motor vehicles and machinery and equipment are as follows:

	2004 HK\$'000	2003 HK\$'000
Motor vehicles	360	116
Machinery and equipment	9,204	5,681

The Group's investment property is situated in Hong Kong and is held under a medium term lease.

The Group's leasehold land and buildings are held under medium term leases and are further analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Hong Kong	3,280	3,370
Elsewhere	103,900	106,000
	107,180	109,370

The Group's investment property and certain of the leasehold land and buildings, with net book values of HK\$1,220,000 and HK\$1,490,000, respectively, as at 31 March 2004, were pledged to the Group's bankers to secure banking facilities granted to the Group, as detailed in note 24 to the financial statements.

15. INTANGIBLE ASSET

Group

	Technical know-how HK\$'000
Cost:	
At beginning of year and at 31 March 2004	27,498
Accumulated amortisation:	
At beginning of year	5,134
Provided during the year	5,398
At 31 March 2004	10,532
Net book value:	
At 31 March 2004	16,966
At 31 March 2003	22,364

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	115,668	115,668
Due from subsidiaries	110,042	65,806
Due to a subsidiary	(4,700)	—
	221,010	181,474

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
i-System Investment Company Limited ("i-System")	British Virgin Islands ("BVI")	US\$2,000	100	Investment holding
Sun East Electronic Equipment Company Limited	Hong Kong	HK\$5,000,000	100	Trading of machinery
Fureach Precision Limited	Hong Kong	HK\$10,000	100	Manufacture and trading of machinery
Suneast Electronics Development (Shenzhen) Co., Ltd.#	The People's Republic of China ("PRC")	HK\$50,000,000	100	Manufacture and trading of machinery
Eastern Century Speed Inc.	BVI/PRC	US\$1	100	Development of electrical interconnection technique
Surfacetech Surface Treatment System Engineering Co. Ltd.	Hong Kong	HK\$10,000	100	Trading of machinery
Frontier Precision System Co., Ltd.	Hong Kong	HK\$10,000	100	Trading of machinery

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Rightrade Corporation	BVI	US\$10	100	Holding of trademarks and patent rights
Sun East Tech Development Limited	Hong Kong	HK\$10,000	100	Trading of machinery
日東自動化設備(上海) 有限公司#	PRC	US\$1,000,000	100	Manufacture and trading of machinery
天力精密系統(深圳) 有限公司#	PRC	HK\$5,000,000	100	Manufacture and trading of machinery
西菲士表面處理工程 (深圳)有限公司#	PRC	HK\$1,800,000	100	Manufacture and trading of machinery
日東電子科技(深圳) 有限公司#	PRC	HK\$6,000,000	100	Manufacture and trading of machinery

Being wholly-foreign owned enterprises under the laws of the PRC.

Except for i-System, all of the subsidiaries are indirectly held by the Company.

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.

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	873	—
Due to a jointly-controlled entity	(756)	—
	117	—

The amount due to the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

The investment in the jointly-controlled entity is indirectly held by the Company.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Rehm Suneast International Limited	Corporate	BVI/ PRC	50	50	50	Manufacture and trading of machinery

18. INTEREST IN AN ASSOCIATE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	915	—

The Group's accounts receivable balance with the associate is disclosed in note 21 to the financial statements.

18. INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activity
Sun East Sanki Co., Ltd.	Corporate	Hong Kong	50	Trading of machinery

The investment in the associate is indirectly held by the Company.

19. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	35,709	28,471
Work in progress	19,308	12,452
Finished goods	25,120	13,561
	80,137	54,484
Less: Provision for slow-moving inventories	—	(5,893)
	80,137	48,591

As at 31 March 2004, no inventories were stated at net realisable value (2003: Nil).

20. CONSTRUCTION CONTRACT

	Group	
	2004	2003
	HK\$'000	HK\$'000
Gross amount due from a contract customer	2,083	–
Contract cost incurred plus recognised profits to date	8,074	–
Less: Progress billings	(5,991)	–
	2,083	–

21. ACCOUNTS RECEIVABLE

An aged analysis of the accounts receivable balance as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 90 days	60,482	39,316
91 to 120 days	7,270	4,260
Over 120 days	59,489	29,946
	127,241	73,522
Less: Provision for doubtful debts	(10,518)	(17,017)
	116,723	56,505

The normal credit period granted by the Group to customers ranges from 30 to 180 days.

Included in the Group's accounts receivable balance is an amount due from the associate of HK\$1,904,000 (2003: Nil), which is repayable on similar credit terms to those offered to the major customers of the Group.

22. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSIT

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	48,430	24,572	107	903
Time deposits	19,704	20,966	12,044	12,847
	68,134	45,538	12,151	13,750
Less: Time deposit pledged for trade finance facilities	(2,000)	—	—	—
Cash and cash equivalents	66,134	45,538	12,151	13,750

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$23,709,000 (2003: HK\$16,804,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable balance as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	74,637	31,498
91 to 120 days	12,748	7,810
Over 120 days	9,049	16,973
	96,434	56,281

24. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loans, secured	22,204	28,390
Bank loans, unsecured	18,868	–
	41,072	28,390
Bank loans repayable:		
Within one year	39,400	6,204
In the second year	1,672	20,514
In the third to fifth years, inclusive	–	1,672
	41,072	28,390
Portion classified as current liabilities	(39,400)	(6,204)
Long term portion	1,672	22,186

Certain of the Group's bank loans are secured by:

- (i) a first legal charge on the Group's investment property situated in Hong Kong, which had a carrying value at the balance sheet date of HK\$1,220,000 (2003: HK\$1,120,000) (note 14);
- (ii) a first legal charge on the Group's land and buildings, which had an aggregate net book value at the balance sheet date of HK\$1,490,000 (2003: HK\$1,540,000) (note 14); and
- (iii) corporate guarantees provided by the Company (note 34).

25. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles, machinery and equipment for its production lines and equipment business. These leases are classified as finance leases and have remaining lease terms ranging from one to five 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		Present value of minimum lease payments	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	2,716	2,099	2,572	2,026
In the second year	1,657	1,059	1,582	1,046
In the third to fifth years, inclusive	1,216	–	1,188	–
Total minimum finance lease payments	5,589	3,158	5,342	3,072
Future finance charges	(247)	(86)		
Total net finance lease payables	5,342	3,072		
Portion classified as current liabilities	(2,572)	(2,026)		
Long term portion	2,770	1,046		

26. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

27. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

Group

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2002	2,791	–	307	3,098
Deferred tax charged to the profit and loss account during the year (note 10)	680	–	–	680
Disposal of a subsidiary (note 31 (c))	(1,878)	–	–	(1,878)
At 31 March 2003 and at 1 April 2003	1,593	–	307	1,900
Deferred tax charged to the profit and loss account during the year (note 10)	604	–	–	604
Deferred tax relating to revaluation of leasehold land and buildings (note 30)	–	1,100	–	1,100
At 31 March 2004	2,197	1,100	307	3,604

At 31 March 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries, the associate or the joint venture as the Group has no liability to additional tax should such amounts be remitted.

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

28. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
350,000,000 (2003: 312,000,000) ordinary shares of HK\$0.10 each	35,000	31,200

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares in issue '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2002 and 1 April 2003	312,000	31,200	50,006	81,206
Issue of shares	38,000	3,800	19,380	23,180
	350,000	35,000	69,386	104,386
Share issue expenses	—	—	(664)	(664)
At 31 March 2004	350,000	35,000	68,722	103,722

Pursuant to a placement agreement dated 2 October 2003, arrangements were made for a private placement to independent third parties of 38,000,000 existing shares of HK\$0.10 each in the Company held by Mind Seekers Investment Limited ("Mind Seekers"), a substantial shareholder of the Company, at a placing price of HK\$0.61 per share. Concurrently, pursuant to a subscription agreement dated 2 October 2003, Mind Seekers subscribed for and was allotted on 2 October 2003 38,000,000 new shares of HK\$0.10 each in the Company at an issue price of HK\$0.61 per share, of which HK\$0.10 per share was credited to share capital and the balance of HK\$0.51 per share was credited to the share premium account.

Details of the Company's share option scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the “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 Scheme include the Company’s directors, including independent non-executive directors, employees of the Group and entities in which the Group has equity interests, suppliers of goods or services to the Group, customers of the Group and consultants, advisers, managers, officers or entities that provide technological support to the Group. The Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for six years from that date.

Under the Scheme, the maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% 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 Scheme in any 12-month period may not exceed 1% of the issued share capital of the Company. 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 21 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 to grantees (a) other than suppliers or customers shall be one year after the grant of an option and expire on the earlier of the last day of (i) a six year period from the date of such grant and (ii) the expiration of the scheme; (b) who are suppliers or customers of the Group, such period shall commence on the date of grant and expire one year thereafter.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value for the time being of each share.

29. SHARE OPTION SCHEME (continued)

No share options have been granted or agreed to be granted under the Scheme up to the date of approval of these financial statements.

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

30. RESERVES

(a) Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve and enterprise expansion funds HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2002	50,006	4,800	4,602	(284)	510	158,974	218,608
Revaluation deficit (note 14)	-	-	(14)	-	-	-	(14)
Net loss for the year	-	-	-	-	-	(46,216)	(46,216)
Exchange realignment	-	-	-	883	-	-	883
At 31 March 2003 and 1 April 2003	50,006	4,800	4,588	599	510	112,758	173,261
Issue of shares	19,380	-	-	-	-	-	19,380
Share issue expenses	(664)	-	-	-	-	-	(664)
Revaluation surplus (note 14)	-	-	3,292	-	-	-	3,292
Net profit for the year	-	-	-	-	-	40,140	40,140
Deferred tax relating to revaluation of leasehold land and buildings (note 27)	-	-	(1,100)	-	-	-	(1,100)
Interim 2004 dividend (note 12)	-	-	-	-	-	(4,200)	(4,200)
Proposed final 2004 dividend (note 12)	-	-	-	-	-	(7,000)	(7,000)
Transfer from retained profits	-	-	-	-	1,152	(1,152)	-
Exchange realignment	-	-	-	(336)	-	-	(336)
At 31 March 2004	68,722	4,800	6,780	263	1,662	140,546	222,773

30. RESERVES (continued)

(a) Group (continued)

In accordance with PRC relevant laws and regulations, the Group's subsidiaries in the PRC are required to transfer part of their profits after tax to the reserve and enterprise expansion funds, which are non-distributable, before profit distributions are made.

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2002	50,006	115,468	98	165,572
Net loss for the year	—	—	(2,175)	(2,175)
At 31 March 2003 and 1 April 2003	50,006	115,468	(2,077)	163,397
Issue of shares	19,380	—	—	19,380
Share issue expenses	(664)	—	—	(664)
Net profit for the year	—	—	18,723	18,723
Interim 2004 dividend (note 12)	—	—	(4,200)	(4,200)
Proposed final 2004 dividend (note 12)	—	—	(7,000)	(7,000)
At 31 March 2004	68,722	115,468	5,446	189,636

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders under certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

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\$5,716,000 (2003: Nil).

(b) Acquisition of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	–	508
Intangible asset – Technical know-how	–	27,498
Accruals and other payables	–	(6)
Due to a shareholder	–	(4,888)
	–	23,112
Acquisition of balance due to a shareholder	–	4,888
	–	28,000
Satisfied by:		
Cash	–	28,000

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	–	(28,000)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	(28,000)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary (continued)

On 22 August 2002, the Group acquired a 100% equity interest in Eastern Century Speed Inc. ("Eastern Century") from an independent third party (the "Vendor"). Eastern Century is engaged in the development of an electrical interconnection technique. The purchase consideration for the acquisition of Eastern Century (the "Acquisition") was in the form of cash of HK\$28,000,000. The intangible asset of Eastern Century was valued by Castores on the "fair market value" in continued use basis with a valuation of HK\$28,000,000.

Since the Acquisition, the technical know-how was utilised by the Group in its production lines and production equipment business.

As at the date of the Acquisition, Eastern Century was indebted to the Vendor in the amount of HK\$4,888,000 (the "Vendor Loan"). In connection with the Acquisition, on 22 August 2002, the Vendor entered into a deed of assignment with Eastern Century and Frontier Precision System Co., Ltd. ("FPS"), a wholly-owned subsidiary of the Company, in which the Vendor agreed to assign the Vendor Loan to FPS at a consideration of HK\$10.

In the prior year, Eastern Century made no contribution to the Group's turnover, but incurred a loss of HK\$5,225,000 included in the consolidated net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003. The aforementioned loss mainly comprised the amortisation of technical know-how of HK\$5,134,000.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Net liabilities disposed of:		
Fixed assets	-	43,591
Cash and bank balances	-	355
Accounts receivable	-	13,428
Inventories	-	3,125
Prepayments, deposits and other receivables	-	1,583
Due from directors	-	2,730
Accounts payable	-	(14,224)
Accruals and other payables	-	(11,812)
Due to the intermediate holding company	-	(16,686)
Due to directors	-	(781)
Tax payable	-	(997)
Interest-bearing bank borrowings	-	(16,687)
Finance lease payables	-	(2,162)
Deferred tax (note 27)	-	(1,878)
	-	(415)
Due to the intermediate holding company disposed of	-	16,686
Gain on disposal of a subsidiary	-	379
	-	16,650
Satisfied by:		
Cash	-	16,650

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of a subsidiary (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	–	16,650
Cash and bank balances disposed of	–	(355)
Bank overdrafts disposed of	–	6,931
	–	23,226
Unsettled amount as at 31 March	–	(14,150)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	9,076

The subsidiary disposed of in the prior year contributed HK\$139,567,000 to turnover and HK\$26,877,000 to the consolidated net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003.

For the unsettled amount of HK\$14,150,000 arising from the disposal of a subsidiary in the prior year, HK\$3,500,000 was received during the year and the remaining balance will be settled by monthly instalments.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14 to the financial statements) under an operating lease arrangement, with the lease negotiated for a term of two years. The terms of the lease generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

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

	Group 2004 HK\$'000	2003 HK\$'000
Within one year	54	84
In the second to fifth years, inclusive	–	54
	54	138

32. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its factory premises under operating lease arrangements. Leases for these assets are negotiated for terms ranging from one to three 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	1,041	905
In the second to fifth years, inclusive	672	1,978
	1,713	2,883

The Company did not have any significant operating lease arrangements at the balance sheet date (2003: Nil).

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following commitments as at the balance sheet date:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Capital commitments in respect of the acquisition of fixed assets:		
Contracted, but not provided for	–	974

At 31 March 2004, the Group had commitments in respect of equity injections into its PRC subsidiaries and the jointly-controlled entity amounting to HK\$12,800,000 (2003: HK\$4,500,000) and HK\$5,000,000 (2003: Nil), respectively.

The Company did not have any significant commitments at the balance sheet date (2003: Nil).

34. CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees of banking facilities granted to subsidiaries	–	–	160,868	106,591

At the balance sheet date, credit facilities supported by guarantees provided by the Company to its subsidiaries were utilised to the extent of approximately HK\$59 million (2003: HK\$59 million).

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with a related party during the year:

	Group	
	2004 HK\$'000	2003 HK\$'000
Sales of products to an associate	3,646	–

The sales to the associate were made according to the published prices and conditions offered to the major customers of the Group.

Details of the Group's trade balance with the associate as at the balance sheet date are disclosed in note 21 to the financial statements.

Details of the Group's amount due to a jointly-controlled entity as at the balance sheet date are included in note 17 to the financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 July 2004.