

Notes to the Financial Statements

31 December 2004

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 10 July 2002 and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Exchange") with effect from 1 November 2004.

Under a group reorganization scheme (the "Reorganization") to rationalize the structure of the Company and its subsidiaries (collectively referred as the "Group") in preparation for the listing of the Company's shares on the Exchange, the Company became the holding company of the Group on 25 June 2004. It was accomplished by acquiring the entire issued share capital of Best Device Group Limited ("Best Device"), the previous holding company of the Group, in consideration of and in exchange for the allotment and issue of a total of 99,999,999 shares of HK\$0.1 each of the share capital of the Company to the then sole shareholder of Best Device. Details of the Reorganization were set out in the Prospectus issued by the Company dated 19 October 2004.

The Group resulting from the Reorganization is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared on the basis that the Company had been the holding company of the Group for both years presented, rather than 25 June 2004. The consolidated financial statements of the Group for the years ended 31 December 2003 and 2004 included the results of the Company and its subsidiaries since 1 January 2003 or since their respective dates of incorporation whichever was a shorter period as if the current Group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 December 2003 had been prepared on the basis that the current Group structure had been in place with effective from 1 January 2003.

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

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable provisions of the Rules Governing the Listing of Securities on The Stock Exchange. The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties. A summary of the principal accounting policies adopted by the Group is set out below.

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

The Group has not adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already assessed the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(a) 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 basis:

- (i) sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers;
- (ii) service income is recognised as services are rendered;
- (iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (iv) operating lease rental income is recognised on a straight-line basis over the periods of the respective leases.

(b) Subsidiaries

A subsidiary is an entity in which the Group controls the composition of the board of directors, controls more than half of the voting power, or holds more than half of the issued share capital, or has power to govern the financial and operating policies.

(c) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and 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, is normally charged to the income statement 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 the fixed 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 on the following basis:

Freehold land	Nil
Leasehold land	Over the remaining lease period
Buildings	Over shorter of the remaining lease period and 50 years
Leasehold improvements	Over shorter of the remaining period of lease and 3 to 5 years
Plant and machinery	10% per annum
Furniture, fixtures and equipment	20% per annum
Motor vehicles	20% per annum

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(d) Investment Properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Company. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(e) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisitions.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets on a straight line basis as follow:

Land and buildings	50 years
Office equipment	5 years
Plant and machinery	6 to 10 years
Motor vehicles	3 years

Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

(g) Construction-in-progress

Construction-in-progress is stated at cost which comprises construction costs, purchased costs and other related expenses incurred in connection with the construction of plant and machinery for own use, less any provision for impairment loss. No depreciation is provided for construction-in-progress until they are completed and put into production.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the first-in, first-out method of costing and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Trade Receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet is stated net of such provision.

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) 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 of 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 income statement 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 income statement 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.

(k) Leases

(i) *Finance leases*

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 income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

(ii) *Operating leases*

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, rental payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Notes to the Financial Statements

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2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(l) Employee Benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of assets and inventories not yet recognised as an expense.

Certain employees of the subsidiaries in the mainland China are members of a compulsory retirement benefit scheme operated by the government of the mainland China, the fund of which is held separately from those of the subsidiaries. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The subsidiaries' employer contributions are fully vested once made.

- (iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.
- (iv) In relation to stock options granted by the Company, no employee benefit cost or obligation is recognised at the date of grant and the date of exercise.

(m) Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, unrealised profits resulting from intra-group transactions and tax losses carried forward. Taxation rates enacted at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

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2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(n) Foreign Currencies

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

On consolidation, the results of foreign subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting translated differences are included in the exchange fluctuation reserve.

(o) Cash Equivalents

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

(p) Segment Reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segment be presented as the primary reporting format and business segment is presented as the secondary reporting format.

Segment assets consist primarily of fixed assets, construction-in-progress, inventories, receivables, deposits, prepayments and operating cash and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain borrowings. Capital expenditure comprises additions to fixed assets and construction-in-progress.

(q) Research and Development Costs

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; is technically feasible; the Group intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the company, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Notes to the Financial Statements

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2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(r) Provisions and Contingent Liabilities

A provision is recognised when there is present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) than an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, they will then be recognised as a provision.

(s) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(t) 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 party may be individuals or corporate entities.

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3. TURNOVER AND OTHER REVENUE

The Group is principally engaged in the manufacture and sales of precision metal components used in a variety of applications. Turnover represents sales of precision metal components net of trade discounts and returns. Revenue recognised by the Group can be summarised as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of precision metal components	288,741	212,529
Less: Trade discounts and returns	(7,069)	(4,274)
Net sales	281,672	208,255
Other revenue		
Gain on disposal of fixed assets	4	66
Interest income	69	117
Subcontracting income	74	–
Rental income	424	572
Gain on disposal of a subsidiary	–	1,013
Written back of other payables	57	–
Gain on sales of raw materials	8	–
Net compensation from a fire accident	5,969	–
Scrap sales	2,820	499
Service fee income	–	650
Sundry income	866	714
	10,291	3,631
Total revenue	291,963	211,886

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4. SEGMENTAL REPORTING

(a) Geographical segments

An analysis of the Group's results of operations by geographical location for the year is as follows:

	Year ended 31 December 2004							Total HK\$'000
	Thailand HK\$'000	Malaysia HK\$'000	Singapore HK\$'000	Mainland China and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	
Turnover	150,440	74,803	518	14,912	7,637	32,369	993	281,672
Other revenue	636	–	–	9,369	–	–	217	10,222
Total revenue	151,076	74,803	518	24,281	7,637	32,369	1,210	291,894
Segment results	17,288	19,938	(103)	10,364	2,281	9,686	567	60,021
Interest income								69
Interest expenses								(5,109)
Profit before tax								54,981
Taxation								(4,302)
Profit before minority interests								50,679
Minority interests								(3)
Profit attributable to shareholders								50,676
Segment assets	149,403	23,257	8	372,097	1,611	9,391	1,970	557,737
Unallocated assets								230
Total assets								557,967
Segment liabilities	43,013	–	79	141,382	–	–	27,359	211,833
Unallocated liabilities								52,361
Total liabilities								264,194
Capital expenditure	5,266	–	–	150,853	–	–	–	156,119
Depreciation	11,989	–	–	13,222	–	–	49	25,260

Notes to the Financial Statements

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4. SEGMENTAL REPORTING *(Continued)*

(a) Geographical segments *(Continued)*

	Year ended 31 December 2003							Total HK\$'000
	Thailand HK\$'000	Malaysia HK\$'000	Singapore HK\$'000	Mainland China and Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Other countries HK\$'000	
Turnover	130,309	50,819	137	9,699	3,017	12,377	1,897	208,255
Other revenue	1,417	–	66	1,018	–	1,013	–	3,514
Total revenue	131,726	50,819	203	10,717	3,017	13,390	1,897	211,769
Segment results	32,914	7,519	10	5,312	735	4,733	569	51,792
Interest income								117
Interest expenses								(3,942)
Profit before tax								47,967
Taxation								(5,397)
Profit before minority interests								42,570
Minority interests								(167)
Profit attributable to shareholders								42,403
Segment assets	147,522	14,635	1,139	163,467	623	6,859	1,093	335,338
Unallocated assets								–
Total assets								335,338
Segment liabilities	56,671	–	2,416	85,492	8	146	12,310	157,043
Unallocated liabilities								17,383
Total liabilities								174,426
Capital expenditure	10,153	–	–	56,632	–	38	–	66,823
Depreciation	8,666	–	41	7,944	–	116	50	16,817

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4. SEGMENTAL REPORTING (Continued)

(b) Business segments

Year ended 31 December 2004			
Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
HDD components	215,748	34,235	98,591
Hydraulic equipment components	44,150	13,447	23,595
Fibre optical connector components	6,702	2,038	1,689
Electronic device components	11,707	2,627	7,112
Others	3,365	1,310	469
	281,672	53,657	131,456
Unallocated income	7,394		
Interest income	69		
Unallocated expenses	(2,517)		
Profit from operations	58,603		
Unallocated items		426,511	156,119
Total		557,967	156,119

Year ended 31 December 2003			
Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
HDD components	168,429	34,258	73,662
Hydraulic equipment components	18,754	7,524	10,523
Fibre optical connector components	12,633	4,019	2,946
Electronic device components	5,779	1,624	3,671
Others	2,660	282	2,901
	208,255	47,707	93,703
Unallocated income	3,514		
Interest income	117		
Unallocated expenses	(916)		
Profit from operations	50,422		
Unallocated items		241,635	66,823
Total		335,338	66,823

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5. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Net exchange loss	2,397	769
Compensation paid	57	–
Loss on disposal of fixed assets	–	79
Provision for doubtful debts	–	56
Others	63	106
	2,517	1,010

6. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/crediting the following:

	2004 HK\$'000	2003 HK\$'000
Charging:		
Auditors' remuneration	874	752
Cost of inventories sold	187,036	121,898
Depreciation		
– Owned assets	15,053	15,355
– Assets held under finance leases	10,207	1,462
	25,260	16,817
Less: Amount capitalized in construction in progress	(57)	–
	25,203	16,817
Minimum lease payments under operating leases:		
– Land and buildings	185	1,189
– Equipment	28	103
Provision for obsolete and slow-moving inventories	4,104	–
Staff costs (excluding directors' remuneration)		
– Salaries, bonuses, allowances and benefits in kind	38,020	31,808
– Retirement benefits scheme contribution	1,042	870
Research and development costs	5,561	3,921
Crediting:		
Rental income from investment properties less outgoings	424	572
Reversal of provision for obsolete and slow-moving inventories	–	271

Notes: Cost of inventories sold includes approximately HK\$46,409,000 (2003: HK\$35,103,000) relating to staff costs, depreciation and operating lease charges, the amount of which were also included in the respective total amounts disclosed separately above for each of these types of expenses.

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7. FINANCE COSTS

Interest on bank loan and overdrafts
 – wholly repayable within five years
 – not wholly repayable within five years
 Interest on finance leases
 Other interest

2004 HK\$'000	2003 HK\$'000
4,014	2,871
–	546
873	524
222	1
5,109	3,942

8. TAXATION

Current tax – Hong Kong Profits Tax
 Provided for the year
 Over-provision in prior years

2004 HK\$'000	2003 HK\$'000
220	2,383
–	(3)
220	2,380

Current tax – Overseas
 Provided for the year
 Over-provision in prior years

2,081	2,804
(29)	(1,322)
2,052	1,482

Deferred tax
 Origination and reversal of temporary differences
 Effect of decrease in tax rate on deferred tax

2,252	1,666
(222)	(131)
2,030	1,535
4,302	5,397

Total income tax expense

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8. TAXATION (Continued) By geographical area

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	220	2,383
Mainland China enterprise income tax	1,380	1,468
Thailand income tax	690	667
Singapore income tax	–	633
Japan corporation tax	11	36
Over-provision in prior years	(29)	(1,325)
	2,272	3,862
Deferred taxation	2,030	1,535
	4,302	5,397

A numerical reconciliation between income tax expense and the product of accounting profit multiplied by the applicable tax rates is as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before tax	54,981	47,967
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	10,622	8,945
Tax effect of non-deductible expenses	339	320
Tax effect of non-taxable revenue	(5,989)	(2,594)
Effect on opening deferred tax balances resulting from a change in tax rate during the year	(222)	(131)
Unrecognised tax losses	–	274
Utilisation of previously unrecognised tax losses	(606)	(92)
Over-provision in prior years	(29)	(1,325)
Others	187	–
Actual tax expense	4,302	5,397

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8. TAXATION (Continued)

Hong Kong profits tax was provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong.

In accordance with the applicable enterprise income tax law of mainland China, 東莞科達五金製品有限公司 ("Dongguan Koda") and 廣州市新豪精密五金製品有限公司 ("Xing Hao") as wholly foreign-owned enterprises incorporated in Dongguan Coastal Economic Open Zone, are subject to mainland China enterprise income tax "EIT" at a rate of 24%. Pursuant to a letter of approval issued by the local tax authority on 16 September 2003, Dongguan Koda as a New and High Technology Enterprise (高新科技企業) was entitled to a preferential tax rate of 15% for the year ended 31 December 2003. Dongguan Koda and Xing Hao are exempted from EIT for the first two profitable years of operations after offsetting prior year losses and are entitled to a 50% reduction on the EIT for the following three years. Dongguan Koda began its first profitable year in the year ended 31 December 1999. Dongguan Koda was entitled to a 50% reduction on EIT, at an effective tax rate of 12% for 2001 and 2002 and 7.5% for 2003. On 13 November 2003, Dongguan Koda obtained an approval from the local tax authority and it is now subject to a tax rate of 10% for the three years ending 31 December 2006. Xing Hao was operating at a loss in 2003 and began profitable during the year ended 31 December 2004.

IPE Thailand, a company incorporated in Thailand is subject to income tax in Thailand at the rate of 30% on estimated assessable profits arising in or derived from Thailand. IPE Thailand has two production factories. IPE Thailand is exempted from income tax for a period of three years effective from 2 June 2000 to 1 June 2003 for income generated from factory I due to the promotion privileges granted under the Investment Promotion Act B.E. 2520 by the Board of Investment in Thailand. The Board of Investment also granted IPE Thailand an exemption from income tax for a period of three years effective from 3 January 2003 to 2 January 2006 for income generated from factory II. From 2 June 2003, IPE Thailand is subject to income tax at the rate of 30% for income generated from factory I.

IPE Singapore, a company incorporated in Singapore is subject to income tax in Singapore at the rate of 22%.

IPE Japan, a company incorporated in Japan is subject to corporation tax in Japan at the rate of 22%.

Under Decree-Law no.58/99/M, a Macau company incorporated under that Law (called "58/99/M Company") is exempted from Macau complementary tax (Macau income tax) as long as the 58/99/M Company does not sell its products to a Macau resident company. IPE Macao Commercial Offshore Limited, a subsidiary of the Group in Macau, is qualified as 58/99/M Company.

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9. DIVIDENDS

Interim dividend paid of HK6.05 cents per share (*Note (i)*)

Final dividend proposed after the balance sheet date of HK1.8 cents per share (*Note (ii)*)

Dividend paid by the Company's subsidiary to its then sole shareholder (*Note (iii)*)

2004 HK\$'000	2003 HK\$'000
6,050	–
9,000	–
–	5,010
15,050	5,010

- (i) Pursuant to a resolution passed at the board of directors' meeting held on 30 August 2004, an interim dividend of HK\$6,050,000 was paid by the Company to its then sole shareholder. The calculation of dividend per share was based on the dividend of HK\$6,050,000 and 100,000,000 shares in issue as at that date.
- (ii) At a meeting held on 21 March 2005, the directors proposed a final dividend of HK\$0.018 per share of the Company, which will be subject to the approval of the shareholders at the Company's forthcoming Annual General Meeting scheduled to be held on 3 June 2005. The proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.
- (iii) Pursuant to a resolution passed at the board of directors' meeting held on 2 April 2004, a final dividend of HK\$5,010,000 was declared by the Company's subsidiary to its then shareholder. The dividend rate and the number of shares ranking for the dividend are not presented as such information is not considered meaningful for the purpose of the financial statements.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately HK\$50,676,000 (2003: HK\$42,403,000) and the weighted average number of 393,808,219 (2003: 372,500,000) ordinary shares in issue during the year. The weighted average number of shares used to calculate the last year's earnings per share included the pro-forma ordinary shares in issue calculated based on the assumption that the Reorganisation, as set out in note 1 to the financial statements, had been completed on 1 January 2003.

Notes to the Financial Statements

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10. EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to shareholders of approximately HK\$50,676,000 and the weighted average number of 394,693,548 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2003, and therefore, diluted earnings per share is not presented for last year.

	2004 <i>Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	393,808,219
Effect of dilutive potential shares from the share option scheme	885,329
Weighted average number of ordinary shares used in calculating diluted earnings per share	394,693,548

11. EMPLOYEE RETIREMENT BENEFITS

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the subsidiary operating in Hong Kong participates in the defined contribution Mandatory Provident Fund since 1 December 2000. Both IPE Hong Kong and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions of the employer and the employees are subject to a cap of monthly earnings of HK\$20,000 and thereafter contributions are voluntary. The aggregate amount of employer's contributions made by IPE Hong Kong amounted to approximately HK\$184,000 and HK\$160,000 for the years ended 31 December 2004 and 2003 respectively. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

As stipulated by the regulations in mainland China, Dongguan Koda and Xing Hao, being wholly owned subsidiaries, are required to contribute to a state-sponsored retirement plan for all of its employees in mainland China at a rate of 11% of the basic salary of its employees. The state-sponsored retirement plan is responsible for the entire pension obligation payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. For the years ended 31 December 2004 and 2003, the Group provided for retirement plan contributions of approximately HK\$365,000 and HK\$280,000 respectively.

IPE Singapore is required to contribute 16% of the basic salary of the Singapore employees to the Singapore government for social security purposes. There was no contribution made by IPE Singapore for the year ended 31 December 2004. The aggregate amount of contribution made by IPE Singapore for the year ended 31 December 2003 amounted to approximately HK\$430,000.

Notes to the Financial Statements

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12. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

(a) Details of directors' remuneration are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	1,700	–
Other emoluments:		
Salaries, bonuses, allowance and benefits in kind	3,156	3,789
Retirement benefits scheme contributions	43	130
	3,199	3,919
	4,899	3,919

Directors' fee disclosed above include HK\$30,000 (2003: Nil) paid to the independent non-executive directors during the year.

The remuneration of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	5	4
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	1	1
	8	5

Notes to the Financial Statements

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12. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

- (b) The five highest paid individuals in the Group for the year ended 31 December 2004 as stated below included three (2003: three) directors, the details of their remuneration have also been disclosed in Note 12(a) above. The emoluments of the five highest paid individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Directors		
Fees	1,110	—
Salaries, bonuses, allowance and benefits in kind	2,823	3,313
Retirement benefit scheme contributions	26	123
	2,849	3,436
	3,959	3,436
Employees		
Fees	—	—
Salaries, bonuses, allowance and benefits in kind	1,585	1,445
Retirement benefits scheme contributions	12	25
	1,597	1,470
	1,597	1,470
Total		
Fees	1,110	—
Salaries, bonuses, allowance and benefits in kind	4,408	4,758
Retirement benefits scheme contributions	38	148
	4,446	4,906
	5,556	4,906

Notes to the Financial Statements

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12. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

(b) (Continued)

The remuneration of the five highest paid individuals fell within the following band:

	Number of individuals	
	2004	2003
Directors		
Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	1	1
	3	3
Employees		
Nil to HK\$1,000,000	2	2
	5	5

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

13. INTANGIBLE ASSETS

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Cost			
At 1 January 2004 and 31 December 2004	1,301	(28,920)	(27,619)
Accumulated amortisation and impairment loss			
At 1 January 2004	(1,301)	2,107	806
Charge for the year	–	1,487	1,487
At 31 December 2004	(1,301)	3,594	2,293
Net book value			
At 31 December 2004	–	(25,326)	(25,326)
At 31 December 2003	–	(26,813)	(26,813)

Notes to the Financial Statements

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14. FIXED ASSETS

	Land and buildings HK\$'000	Investment properties HK\$'000	Construction in-progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation								
At 1 January 2004	80,312	11,493	9,231	220,878	3,733	3,667	8,571	337,885
Exchange movement	819	–	–	3,242	58	–	48	4,167
Additions	914	–	78,381	74,649	1,206	62	907	156,119
Reclassification	1,470	–	(15,174)	13,676	28	–	–	–
Surplus on revaluation	–	1,277	–	–	–	–	–	1,277
Disposal	–	–	–	–	–	–	(151)	(151)
Written off	–	–	–	–	–	–	(111)	(111)
At 31 December 2004	83,515	12,770	72,438	312,445	5,025	3,729	9,264	499,186
At cost	83,515	–	72,438	312,445	5,025	3,729	9,264	486,416
At valuation	–	12,770	–	–	–	–	–	12,770
At 31 December 2004	83,515	12,770	72,438	312,445	5,025	3,729	9,264	499,186
Accumulated depreciation and impairment loss								
At 1 January 2004	4,266	1,282	–	84,690	2,187	2,664	7,487	102,576
Exchange movement	68	–	–	849	25	–	29	971
Eliminated on revaluation	–	(1,282)	–	–	–	–	–	(1,282)
Provided for the year	2,441	–	–	21,000	689	491	639	25,260
Disposal	–	–	–	–	–	–	(151)	(151)
Written off	–	–	–	–	–	–	(111)	(111)
At 31 December 2004	6,775	–	–	106,539	2,901	3,155	7,893	127,263
Net book value								
At 31 December 2004	76,740	12,770	72,438	205,906	2,124	574	1,371	371,923
At 31 December 2003	76,046	10,211	9,231	136,188	1,546	1,003	1,084	235,309

Notes to the Financial Statements

31 December 2004

14. FIXED ASSETS (Continued)

- (a) Investment properties were revalued at 31 August 2004 on the basis of their open market value by Vigers Appraisal & Consulting Limited. The revaluation surplus of approximately HK\$2,559,000 was credited to the investment property revaluation reserve. In the opinion of the directors, there was no material change in the open market value of the investment properties as at 31 December 2004 and 31 August 2004.

- (b) Net book value of assets held under finance leases
- Plant and machinery
 - Furniture, fixtures and equipment
 - Construction in progress
 - Motor vehicles
- (c) Net book value of assets charged for banking facilities
- Land and buildings
 - Plant and machinery
 - Investment properties

2004 HK\$'000	2003 HK\$'000
68,210	10,196
161	120
8,179	–
321	64
76,871	10,380
21,950	34,863
50,552	49,238
10,600	8,711
83,102	92,812
159,973	103,192

- (d) The Group's land and buildings and investment properties at their net book values are analysed as follows:

- In Hong Kong, held on:
- Lease of 10 to 50 years
- Outside Hong Kong, held on:
- Freehold
 - Leases of over 50 years
 - Leases of 10 to 50 years

2004 HK\$'000	2003 HK\$'000
12,152	10,327
21,950	21,794
3,048	2,396
52,360	51,740
89,510	86,257

Notes to the Financial Statements

31 December 2004

14. FIXED ASSETS *(Continued)*

(e) The assets held for use in operating leases are as follows:

	2004 HK\$'000	2003 HK\$'000
Cost or valuation		
Investment properties	12,770	11,493
Accumulated depreciation		
Investment properties	–	1,282

15. INVENTORIES

Inventories consisted of:

	2004 HK\$'000	2003 HK\$'000
Raw materials	15,043	5,853
Consumables	5,280	4,067
Work-in-progress	29,677	13,638
Finished goods	13,982	12,644
	63,982	36,202
Less: Provision for obsolete and slow-moving inventories	(9,978)	(5,874)
	54,004	30,328

The amount of inventories that was carried at net realisable value amounted to approximately HK\$2,252,000 (2003: HK\$3,457,000).

Notes to the Financial Statements

31 December 2004

16. INTEREST IN SUBSIDIARIES

Unlisted shares, at cost
Due from subsidiaries

2004 HK\$'000	2003 HK\$'000
43	–
71,166	–
71,209	–

The amounts due from subsidiaries were unsecured, non-interest bearing and without pre-determined terms of repayment.

Details of the subsidiaries as at 31 December 2004 were as follows:

Name	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Best Device Group Limited	British Virgin Islands/ Hong Kong SAR	USD5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong SAR	US\$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong SAR	US\$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong SAR	US\$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong SAR	US\$1,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	THB150,000,000	–	99.99%	Trading and manufacturing of precision metal components
Integrated Precision Engineering Pte. Limited ("IPE Singapore")	Singapore	S\$1,200,000	–	100%	Dormant
Integrated Precision Engineering Company Limited	Hong Kong SAR	HK\$3,000,000	–	100%	Trading of precision metal components and investment holding

Notes to the Financial Statements

31 December 2004

16. INTEREST IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Integrated Precision Engineering (Japan) Company Limited	Japan	¥3,000,000	–	90%	Trading of precision metal components
IPE Macao Commercial Offshore Limited	Macau SAR	MOP100,000	–	100%	Trading of precision metal components
東莞科達五金製品有限公司 (Dongguan Koda Metal Products Company Ltd.)	Mainland China	HK\$121,109,869 Note (i)	–	100%	Manufacturing of precision metal components
廣州市新豪精密五金製品有限公司	Mainland China	HK\$56,950,113 Note (ii)	–	100%	Manufacturing of precision metal components

Notes:

- (i) Dongguan Koda Metal Products Company Limited is a wholly foreign-owned enterprise with registered capital of HK\$133,000,000. The remaining capital contribution of HK\$11,890,131 should be contributed before 15 February 2007.
- (ii) Xing Hao is a wholly foreign-owned enterprise with registered capital of HK\$140,000,000. The remaining capital contribution of HK\$7,500,000, HK\$33,049,887 and HK\$42,500,000 should be contributed before 9 December 2004, 24 February 2006 and 9 September 2006 respectively.

17. TRADE RECEIVABLES

The credit terms granted to customers normally ranges from 30 to 120 days. The aging analysis of the Group's trade receivables, based on invoice date, is as follows:

	2004 HK\$'000	2003 HK\$'000
0 to 30 days	28,458	21,509
31 to 60 days	26,907	20,961
61 to 90 days	15,670	12,023
91 to 120 days	4,650	2,333
121 to 365 days	1,767	6,485
1 to 2 years	–	64
	77,452	63,375

Notes to the Financial Statements

31 December 2004

18. CASH AND BANK BALANCES

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-pledged fixed deposit with a bank	7,095	—	—	—
Cash and bank balances	45,167	6,251	15,608	—
	52,262	6,251	15,608	—

Included in the cash and bank balances of the Group as at 31 December 2004 were amounts of approximately HK\$5,842,000 (2003: HK\$5,195,000) denominated in Renminbi not freely convertible to other currencies.

19. TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	2004 HK\$'000	2003 HK\$'000
0 to 30 days	11,810	7,109
31 to 60 days	12,917	8,889
61 to 90 days	9,192	6,468
91 to 120 days	960	931
121 to 365 days	1,150	1,274
1 to 2 years	112	7
	36,141	24,678

20. DUE TO DIRECTORS

	2004 HK\$'000	2003 HK\$'000
Mr. Ho Yu Hoi	—	264
Mr. Li Chi Hang	—	119
	—	383

The balances were unsecured, interest-free and had no pre-determined terms of repayment.

Notes to the Financial Statements

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21. TAX PAYABLES

	2004 HK\$'000	2003 HK\$'000
Income tax	1,561	2,536
Value added tax	504	327
	2,065	2,863

22. SHORT-TERM BORROWINGS

	2004 HK\$'000	2003 HK\$'000
Trust receipt loans, secured	6,011	2,024
Bills payable, secured	–	1,521
Bank overdrafts, secured	14,167	20,625
Short-term bank loans, secured	55,782	13,535
	75,960	37,705

23. OBLIGATIONS UNDER FINANCE LEASES

The total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts repayable:				
Within one year	18,190	6,488	15,979	6,329
In the second year	17,957	215	16,460	209
In the third to fifth years, inclusive	26,991	–	25,940	–
Total minimum finance lease payments	63,138	6,703	58,379	6,538
Less: Future finance charges	(4,759)	(165)		
Total net finance lease payable	58,379	6,538		
Less: Portion classified as current liabilities	(15,979)	(6,329)		
Long-term portion	42,400	209		

Notes to the Financial Statements

31 December 2004

24. LONG-TERM BORROWINGS

	2004 HK\$'000	2003 HK\$'000
Bank loans		
Wholly repayable within five years	36,390	33,230
Not wholly repayable within five years	7,659	9,627
	44,049	42,857
Amount due within one year or on demand included under current liabilities	(14,837)	(15,099)
	29,212	27,758
The Group's bank loans were repayable as follows:		
Due within one year or on demand	14,837	15,099
Due in the second year	14,644	9,897
Due in the third to fifth years	12,097	14,486
Due after the fifth year	2,471	3,375
	44,049	42,857

On 31 January 2004, the bank has agreed to refinance the short-term loan facilities as at 31 December 2003 into long-term facilities. Therefore, the repayment of loan of approximately HK\$15,564,000 was deferred and classified as non-current liabilities as at 31 December 2003.

25. DUE TO A DIRECTOR

	2004 HK\$'000	2003 HK\$'000
Mr. Chui Siu On ("Mr. Chui")	–	17,000

On 31 December 2003, IPE Hong Kong signed an agreement with Mr. Chui. The amount was unsecured, interest-free and repayment after one year. Under the terms of the agreement, Mr. Chui agreed not to demand for repayment on or before 31 December 2005, therefore, the amount had been reclassified from current liabilities to non-current liabilities as at 31 December 2003. In June 2004, the amount was capitalised so that 528 shares of Best Device were issued and allotted to Mr. Chui.

26. OTHER PAYABLE

As at 31 December 2003, the amount represented balance of payment on acquisition of land by a subsidiary. The balance was unsecured and interest-free and not repayable within one year.

Notes to the Financial Statements

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27. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet are as follows:

	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities:		
Depreciation allowances in excess of related depreciation	3,980	2,081
Deferred tax assets:		
Provision for slow-moving inventories, costs and expenses not yet deductible for tax purposes	(742)	(389)
Items not taxable until taken up in the statutory accounts of subsidiary in mainland China	597	–
	3,835	1,692
Net deferred tax assets recognised on the balance sheet	(174)	(878)
Net deferred tax liabilities recognised on the balance sheet	4,009	2,570
	3,835	1,692

(b) Deferred tax assets not recognised

As at 31 December 2003, the Group had tax losses of approximately HK\$2,526,000 that were available to carry forward for offsetting against future taxable profits. There is no expiry date for utilisation of the tax losses under current tax legislation. The tax losses had been utilized during the year ended 31 December 2004.

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28. ISSUED CAPITAL

	(Note)	2004		2003	
		Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:					
At beginning of the year	(a)	1,000,000	100	1,000,000	100
Addition	(b)	1,199,000,000	119,900	–	–
At end of the year		1,200,000,000	120,000	1,000,000	100
Issued and fully paid:					
At beginning of the year	(a)	1	–	1	–
Ordinary shares issued for the acquisition of the entire issued share capital of Best Device	(c)	99,999,999	10,000	–	–
Ordinary shares issued pursuant to placing and public offer	(d)	127,500,000	12,750	–	–
Ordinary shares issued pursuant to a capitalization issue	(e)	272,500,000	27,250	–	–
At end of the year		500,000,000	50,000	1	–

- (a) On 10 July 2002, the Company was incorporated with an authorized share capital of HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.1 each. On 29 July 2002, one share was allotted and issued to the initial subscriber, fully paid at par, and such share was subsequently transferred to Tottenhill on the same date.
- (b) Pursuant to a resolution in writing of the sole shareholder of the Company passed on 25 June 2004, the authorized share capital of the Company was increased from HK\$100,000 to HK\$120,000,000 by the creation of additional 1,199,000,000 shares of HK\$0.1 each ranking pari passu with the existing shares in all respects.
- (c) On 25 June 2004, pursuant to the Reorganisation described in note 1 to the financial statements, the Company allotted and issued 99,999,999 ordinary shares of HK\$0.1 each, credited as fully paid, to Tottenhill as consideration for acquisition of the entire issued share capital of Best Device. The difference between the nominal value of the share capital of Best Device and the Company has been debited to the merger reserve account as set out in note 30 to the financial statements.
- (d) On 1 November 2004, 127,500,000 ordinary shares of HK\$0.1 each were issued through a placing and public offer (the "New Issue") of the Company's shares at HK\$0.77 each for a total cash consideration of HK\$98,175,000 before the related issue expenses.

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31 December 2004

28. ISSUED CAPITAL *(Continued)*

- (e) Immediately after the New Issue, share premium of HK\$27,250,000 was capitalised for the issuance of 272,500,000 shares of HK\$0.1 each on pro-rata basis to the Company's shareholders before the New Issue. The Company underwent a capitalization issue pursuant to which the credit standing of the share premium account was applied to pay up 272,500,000 ordinary shares of HK\$0.1 each.

The share capital in the consolidated balance sheet as at 31 December 2003 represented the issued share capital of Best Device prior to the Reorganisation.

29. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution in writing of the sole shareholder dated 12 October 2004 which became effective on 1 November 2004, the date on which the shares of the Company are listed on the Exchange. Unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from 12 October 2004.

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the Scheme, the directors of the Company are authorised at their absolute discretion, to invite any directors (including the executive, non-executive and independent non-executive directors) and full-time employees of any member of the Group and any advisors, consultants, distributors, contributors, suppliers, agents, customers, joint venture business partners, promoters, service providers of any member of the Group who is eligible to participate in the Scheme, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent of the total number of shares in issue as at the date of listing of the Company's shares on the Exchange.

The Company may seek approval of the shareholders in general meeting for refreshing the 10 per cent limit under the Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10 per cent of the total number of shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the Scheme and any other scheme) will not be counted for the purpose of calculating the limit as "refreshed".

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30 per cent of the total number of shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1 per cent of the total number of shares in issue at the date of grant.

The exercise price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the making of the offer but in any case the exercise price shall be at least the highest of (i) the official closing price of the shares as stated in the daily quotation sheets of the Exchange on the offer date; (ii) the average of the official closing price of the shares as stated in the daily quotation sheets of the Exchange for the five (5) business days immediately preceding the offer date; and (iii) the nominal value of a share.

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29. SHARE OPTION SCHEME (Continued)

The offer of a grant of share options must be accepted not later than 28 days after the date of the offer, upon payment of a consideration of HK\$1 by the grantee. A share option may be exercised during the period commencing on the date upon which the share options are accepted and expiring on the last day of a five-year period from such acceptance date or the last day of the period of the Scheme, whichever is earlier. There is no minimum period for which an option must be held before the exercise of the option except otherwise imposed by the board of directors.

The movements in the share options of the Company during the year ended 31 December 2004 were as follows:

Grantees	Date of grant	Exercisable period	Exercise price	Closing price before the date of grant	Number of share options			
					At 1/1/2004	Granted during the year	Cancelled/lapsed/exercised during the year	Outstanding at 31/12/2004
Directors	N/A	N/A	N/A	N/A	–	–	–	–
Employees	30 November 2004	30 November 2004 to 31 December 2008	HK\$0.78	HK\$0.78	–	23,250,000	–	23,250,000
Service providers	30 November 2004	30 November 2004 to 31 December 2008	HK\$0.78	HK\$0.78	–	1,750,000	–	1,750,000
Total					–	25,000,000	–	25,000,000

Notes:

- (i) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of 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 lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.
- (ii) On 27 January 2005, a total of 3,000,000 and 7,000,000 share options were granted to the employees and service providers respectively at the exercise price of HK\$1.09 per share.

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31 December 2004

30. RESERVES (a) The Group

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Statutory surplus reserve HK\$'000	Statutory public welfare fund HK\$'000	Merger reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	–	–	574	287	8,842	(3,639)	107,830	113,894
Movement in exchange fluctuation reserve	–	–	–	–	–	4,558	–	4,558
Profit attributable to shareholders	–	–	–	–	–	–	42,403	42,403
Transfer from retained profits	–	–	1,772	–	–	–	(1,772)	–
At 31 December 2003	–	–	2,346	287	8,842	919	148,461	160,855
At 1 January 2004	–	–	2,346	287	8,842	919	148,461	160,855
Issue of share capital	16,996	–	–	–	–	–	–	16,996
Group Reorganization	–	–	–	–	(9,958)	–	–	(9,958)
Issue of shares on listing	85,425	–	–	–	–	–	–	85,425
Capitalisation of share premium	(27,250)	–	–	–	–	–	–	(27,250)
Share issue expenses	(26,362)	–	–	–	–	–	–	(26,362)
Surplus on revaluation	–	2,559	–	–	–	–	–	2,559
Movement in exchange fluctuation reserve	–	–	–	–	–	1,871	–	1,871
Profit attributable to shareholders	–	–	–	–	–	–	50,676	50,676
Transfer from retained profits	–	–	2,315	–	–	–	(2,315)	–
Dividend paid								
– 2003 final dividend	–	–	–	–	–	–	(5,010)	(5,010)
– 2004 interim dividend	–	–	–	–	–	–	(6,050)	(6,050)
	–	–	–	–	–	–	(11,060)	(11,060)
At 31 December 2004	48,809	2,559	4,661	287	(1,116)	2,790	185,762	243,752

Notes to the Financial Statements

31 December 2004

30. RESERVES (Continued) (b) The Company

	Share premium HK\$'000	Statutory surplus reserve HK\$'000	Statutory public welfare fund HK\$'000	Merger reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	-	-	-	-	-	-	-
Profit attributable to shareholders	-	-	-	-	-	-	-
At 31 December 2003	-	-	-	-	-	-	-
At 1 January 2004	-	-	-	-	-	-	-
Group reorganization	-	-	-	(9,958)	-	-	(9,958)
Issue of shares on listing	85,425	-	-	-	-	-	85,425
Capitalisation of share premium	(27,250)	-	-	-	-	-	(27,250)
Share issue expenses	(26,362)	-	-	-	-	-	(26,362)
Profit attributable to shareholders	-	-	-	-	-	20,605	20,605
2004 interim dividend paid	-	-	-	-	-	(6,050)	(6,050)
At 31 December 2004	31,813	-	-	(9,958)	-	14,555	36,410

Mainland China laws and regulations require Dongguan Koda and Xing Hao to provide for statutory surplus reserve which are appropriated from the net profit as reported in the statutory financial statements prepared in accordance with the generally accepted accounting principles in mainland China but before dividend distribution. They are required to allocate 10% of its net profit to statutory surplus reserve until the balance of such fund has reached 50% of their registered capital. The reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

The transfer of net profit to statutory public welfare fund is made at the discretion of the directors at 5% of the net profit of the subsidiaries. The statutory public welfare fund can be used for employees welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the year ended 31 December 2003 and 2004.

Notes to the Financial Statements

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31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Disposal of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Fixed assets	–	1,700
Inventories	–	1,018
Prepayments, deposits and other receivables	–	465
Due from related companies	–	532
Trade receivables	–	3,884
Cash and bank balances	–	1,360
Bank overdrafts	–	(133)
Trade payables	–	(690)
Other payables and accruals	–	(122)
Value added tax payable	–	(122)
Due to related companies	–	(8,638)
Minority interest	–	229
	–	(517)
Gain on disposal (<i>Note 3</i>)	–	1,013
	–	496
Satisfied by:		
Set off with other payable	–	496

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Cash and cash equivalents disposed of with the subsidiary		
Cash and bank balances	–	1,360
Bank overdrafts	–	(133)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	1,227

Notes to the Financial Statements

31 December 2004

31. NOTES TO THE COMBINED CASH FLOW STATEMENTS (Continued)

(b) Analysis of balances of cash and cash equivalents

	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	45,168	6,251
Non-pledged fixed deposit with a bank	7,094	–
	52,262	6,251
Bank overdrafts	(14,167)	(20,625)
Cash and cash equivalents	38,095	(14,374)

(c) Major non-cash transactions

The Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$64,776,000 for the year ended 31 December 2004 (2003: Nil).

32. CAPITAL COMMITMENTS

The capital commitments of the Group were as follows:

	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for		
– Purchase of machinery	1,764	–
Contracted but not provided for		
– Purchase of machinery	103,576	59,300
– Construction in progress	35,318	1,867
	138,894	61,167
	140,658	61,167

The Company did not have any commitments during the years ended 31 December 2004 and 2003.

Notes to the Financial Statements

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33. OPERATING LEASE ARRANGEMENTS

(a) The Group as lessor

The total future minimum lease payments to be received by the Group for assets leased out under non-cancellable operating leases are as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	–	540
Later than one year and not later than five years	–	203
	–	743

(b) The Group as lessee

The Group's total minimum lease payments under non-cancellable operating lease agreements are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	56	55
Later than one year and not later than five years	151	–
	207	55

The Group leases land and buildings under operating leases with lease terms of 1 to 2 years. None of these leases includes contingent rentals.

34. CONTINGENT LIABILITIES

(a) The Group

	2004 HK\$'000	2003 HK\$'000
Guarantees to an electricity company	458	235

(b) The Company

As at 31 December 2004, the Company had issued guarantees of approximately HK\$210 million (2003: Nil) to bankers to secure general banking and leasing facilities granted to certain subsidiaries of which approximately HK\$129 million was utilised as at 31 December 2004 (2003: Nil).

Notes to the Financial Statements

31 December 2004

35. BANKING FACILITIES

The Group had aggregate banking facilities of approximately HK\$206,000,000 and HK\$121,750,000 as at 31 December 2004 and 2003 respectively, for loans, overdrafts and trade financing. Unused facilities as at 31 December 2004 and 2003 amounted to approximately HK\$85,991,000 and HK\$42,683,000 respectively. During the year, these facilities were secured by:

- (a) guarantees provided by directors of the Company;
- (b) corporate guarantee provided by the Company;
- (c) properties owned by a director and his wife;
- (d) pledged fixed deposits with banks of approximately HK\$11,506,000 as at 31 December 2004 (2003: HK\$9,581,000);
- (e) fixed assets with net book value of approximately HK\$83,102,000 (2003: HK\$92,812,000), the details are set out in note 14(c) to the financial statements.

In addition, the Group is required to comply with certain restrictive financial covenants with certain banks.

The security in respect of the properties respectively owned by a director and his wife above was released and replaced by a corporate guarantee upon the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited in November 2004.

36. ULTIMATE HOLDING COMPANY

The directors of the Company consider Tottenhill Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.