

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 3 March 2003.

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 35.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments in subsidiaries

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

Goodwill

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

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

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

Negative goodwill

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

Negative goodwill is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

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

Revenue recognition

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Property, plant and equipment

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

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

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

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



Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investment properties

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

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

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Investments in securities

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Research and development expenditure

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

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

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Research and development expenditure (continued)

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

Technology know-how

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

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



Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Foreign currencies

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

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

Operating leases

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

Retirement benefit costs

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

Notes to the Financial Statements

For the year ended 31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. TURNOVER

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



Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION

Business segments

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

Segment information about these businesses is presented below.

Income statement

for the year ended 31 December 2004

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	444,564	75,854	—	520,418
Inter-segment sales	566	381	(947)	—
	445,130	76,235	(947)	520,418
Segment results	16,359	(5,204)	—	11,155
Unallocated corporate revenue				85
Profit from operations				11,240
Finance costs				(5,137)
Profit before taxation				6,103
Income tax expenses				(276)
Profit before minority interests				5,827
Minority interests				(46)
Profit for the year				5,781

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (continued)

Balance sheet

as at 31 December 2004

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	136,409	29,384	—	165,793
Unallocated corporate assets				65,740
Consolidated total assets				231,533
Liabilities				
Segment liabilities	57,990	12,126		70,116
Unallocated corporate liabilities				76,415
Consolidated total liabilities				146,531
Other information				
Additions to property, plant and equipment and intangible assets	733	319	—	1,052
Depreciation and amortisation of property, plant and equipment	448	688	—	1,136
Loss on disposal of property, plant and equipment	6	159	—	165
Amortisation of technology know-how	—	2,730	—	2,730
Amortisation of goodwill	323	—	—	323
Release of negative goodwill	(24)	(17)	—	(41)
Allowance (reversal) for doubtful debts	688	(289)	—	399
Allowance for slow moving inventories	467	—	—	467

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (continued)

Income statement

for the year ended 31 December 2003

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

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (continued)

Balance sheet

as at 31 December 2003

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	160,093	26,464	—	186,557
Unallocated corporate assets				48,764
Consolidated total assets				235,321
Liabilities				
Segment liabilities	61,499	5,075	—	66,574
Unallocated corporate liabilities				99,505
Consolidated total liabilities				166,079
Other information				
Additions to property, plant and equipment and intangible assets	287	1,318	—	1,605
Technology know-how capitalised	—	5,460	—	5,460
Depreciation and amortisation of property, plant and equipment	357	694	—	1,051
Loss on disposal of property, plant and equipment	—	430	—	430
Amortisation of goodwill	775	—	—	775
Release of negative goodwill	(58)	(41)	—	(99)
Allowance for doubtful debts	1,374	647	—	2,021
Allowance for slow moving inventories	907	1,035	—	1,942

Notes to the Financial Statements

For the year ended 31 December 2004

5. SEGMENT INFORMATION (continued)

Geographical segments

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

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

	2004 HK\$'000	2003 HK\$'000
Hong Kong	323,242	250,655
PRC	192,877	103,735
Others	4,299	2,151
	520,418	356,541

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	180,445	189,029	733	5,747
PRC	50,720	46,270	319	1,318
Others	370	22	—	—
	231,535	235,321	1,052	7,065

Notes to the Financial Statements

For the year ended 31 December 2004

6. OTHER OPERATING INCOME

	2004	2003
	HK\$'000	HK\$'000
Commission income	5	246
Compensation income	1,117	522
Engineering income	310	108
Interest income	85	273
Release of negative goodwill	41	99
Rental income	272	122
Sample income	200	302
Sundry income	886	2,102
Unrealised gain on investment in securities	12	5
Technical service income	292	223
	3,220	4,002

7. PROFIT (LOSS) FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit (loss) from operations is arrived at after charging (crediting):		
Amortisation of goodwill included in general and administrative expenses	323	775
Auditors' remuneration	790	640
Depreciation and amortisation of property, plant and equipment		
own assets	1,086	1,038
asset held under a finance lease	50	13
Exchange loss, net	8	285
Loss on disposals of property, plant and equipment	165	430
Operating lease in respect of		
land and building	1,128	1,945
plant and equipment	1	1
Allowance for doubtful debts included in general and administrative expenses	399	2,021
Research and development cost	1,488	3,000
Allowance for slow moving inventories included in cost of sales	467	1,942
Staff costs inclusive of directors' remuneration (note 9)	22,683	23,616
Revaluation (increase) decrease on revaluation of investment properties	(239)	239

Notes to the Financial Statements

For the year ended 31 December 2004

8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank borrowings wholly repayable within five years	4,258	3,335
Interest on other borrowings	869	685
Finance lease charges	10	6
	5,137	4,026

9. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES

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

	2004 HK\$'000	2003 HK\$'000
Fees	150	100
Basic salaries, housing allowances, other allowances and benefits in kind	2,907	3,118
Retirement scheme contributions	48	54
	3,105	3,272

The remunerations of the directors were within the following band:

	2004 Number of directors	2003 Number of directors
Nil to HK\$1,000,000	7	8

Included in directors' remunerations are fees of HK\$150,000 (2003: HK\$100,000) payable to independent non-executive directors of the Company.

Notes to the Financial Statements

For the year ended 31 December 2004

9. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES (continued)

The five highest paid individuals of the Group included three (2003: five) directors, details of their remunerations are set out above. The remunerations of the remaining two (2003: nil) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,231	—
Retirement scheme contributions	24	—
	1,255	—

The remuneration of the employees were within the band of nil to HK\$1,000,000.

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

10. INCOME TAX EXPENSES

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
current year	278	78
under(over)provision in prior year	58	(3)
	336	75
Deferred tax		
current year	(60)	—
	276	75

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.



Notes to the Financial Statements

For the year ended 31 December 2004

10. INCOME TAX EXPENSES (continued)

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

	2004 HK\$'000	2003 HK\$'000
Profit (loss) before taxation	6,103	(11,732)
Tax at the domestic income tax rate of 17.5%	1,068	(2,053)
Tax effect of expenses not deductible for tax purpose	355	425
Tax effect of income not taxable for tax purpose	(48)	(101)
Tax effect of tax loss not recognised	387	1,839
Utilisation of tax losses previously not recognised	(1,414)	—
Effect of tax exemptions granted to a PRC subsidiary	(58)	(46)
Others	(72)	14
Under(over)provision in prior year	58	(3)
Taxation charge for the year	276	75

Details of deferred taxation provided are set out in note 25.

11. DIVIDENDS

The directors do not recommend the payment of a dividend and proposed the profit for the year been retained.

Notes to the Financial Statements

For the year ended 31 December 2004

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the profit (loss) for the year of HK\$5,781,000 (2003: loss of HK\$11,653,000) and on weighted average number of shares in issue of 460,434,000 (2003: 390,794,000).

No diluted earnings per share for 2004 has been presented because the exercise price of the Company's outstanding share options was higher than the average market price for shares for the year ended 31 December 2004.

No diluted loss per share for 2003 has been presented as there were no potential dilutive shares in existence during the year ended 31 December 2003.

13. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 January 2004	1,575
Revaluation increase	375
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At 31 December 2004	1,950

The investment properties were revalued at their open market value at 31 December 2004 by Surpass Company Limited, an independent valuer, on an open market value basis. The revaluation increase arising on revaluation, which has been credited to the investment properties revaluation reserve and the income statement amounted to approximately HK\$136,000 and HK\$239,000, respectively.

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



Notes to the Financial Statements

For the year ended 31 December 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improve- ments	Office equipment	Furniture and fixtures	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST							
At 1 January 2004	6,333	3,184	4,774	1,832	211	147	16,481
Exchange realignment	—	9	6	—	—	—	15
Additions	—	61	70	—	—	921	1,052
Disposals	—	(467)	(106)	(8)	—	—	(581)
At 31 December 2004	6,333	2,787	4,744	1,824	211	1,068	16,967
DEPRECIATION AND AMORTISATION							
At 1 January 2004	236	1,905	3,737	1,062	184	147	7,271
Exchange realignment	—	1	1	—	—	—	2
Provided for the year	149	351	284	277	11	64	1,136
Eliminated on disposals	—	(132)	(48)	(8)	—	—	(188)
At 31 December 2004	385	2,125	3,974	1,331	195	211	8,221
NET BOOK VALUES							
At 31 December 2004	5,948	662	770	493	16	857	8,746
At 31 December 2003	6,097	1,279	1,037	770	27	—	9,210

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

Included in the net asset values of the property, plant and equipment as at 31 December 2004 was an amount of HK\$140,000 (2003: HK\$53,000) in respect of an asset held under a finance lease.

Notes to the Financial Statements*For the year ended 31 December 2004***15. GOODWILL**

	HK\$'000
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COST	
At 1 January 2004 and 31 December 2004	2,103
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AMORTISATION	
At 1 January 2004	1,780
Provided for the year	323
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At 31 December 2004	2,103
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NET BOOK VALUE	
At 31 December 2004	—
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At 31 December 2003	323

The amortisation period adopted for goodwill is two years.

16. NEGATIVE GOODWILL

	HK\$'000
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GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	198
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RELEASED TO INCOME	
At 1 January 2004	157
Released for the year	41
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At 31 December 2004	198
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CARRYING AMOUNT	
At 31 December 2004	—
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At 31 December 2003	41

The negative goodwill is released to income on a straight-line basis over two years, being the remaining weighted average useful life of the depreciable assets of the subsidiaries in which additional interests acquired.

Notes to the Financial Statements

For the year ended 31 December 2004

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2004 & 2003 HK\$'000
Unlisted shares, at cost	69,560

The cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation which had been completed on 20 December 2002.

Particulars of the Company's subsidiaries at 31 December 2004 are set out in note 35.

18. INVESTMENT IN SECURITIES

	2004 HK\$'000	2003 HK\$'000
Other investment:		
Listed equity securities in Hong Kong, at market value	23	11
Investment securities:		
Unlisted debts securities, at cost	4,968	2,964
	4,991	2,975
Non-current	4,968	2,964
Current	23	11
	4,991	2,975

Notes to the Financial Statements

For the year ended 31 December 2004

19. TECHNOLOGY KNOW-HOW

	HK\$'000
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COST	
At 1 January 2004 and 31 December 2004	5,460
AMORTISATION	
Charge for the year and balance at 31 December 2004	(2,730)
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NET BOOK VALUE	
At 31 December 2004	2,730
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At 31 December 2003	5,460
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In May 2002, a deposit of HK\$5,460,000 (USD700,000) was paid to an independent third party for the development of the know-how of global positioning system products ("GPS know-how"). In late 2003, the development was completed and the Group obtained the right of the GPS know-how in the consideration of the deposit paid.

The Group has used this know-how to develop electronic turnkey device solutions for GPS products. The technology know-how is amortised on a straight-line basis over two years, being its estimated useful life.

20. INVENTORIES

	2004 HK\$'000	2003 HK\$'000
Raw materials	635	729
Work in progress	289	1,793
Finished goods	30,509	41,938
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	31,433	44,460
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Included above are finished goods of HK\$1,102,000 (2003: nil) which are carried at net realisable value.



Notes to the Financial Statements

For the year ended 31 December 2004

21. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 30 to 90 days to its trade customers. For certain customers with long-established relationship and good past settlement histories, a longer credit period may be granted.

An aged analysis of trade debtors is as follows:

	2004 HK\$'000	2003 HK\$'000
Within 30 days	38,348	22,656
Between 31 to 60 days	23,793	14,700
Over 60 days	38,555	62,067
	100,696	99,423
Other debtors, deposits and prepayments (notes)	18,912	23,127
	119,608	122,550

Included in trade debtors are amounts of HK\$3,231,000 (2003: nil) which have been pledged to certain banks to secure the receivable discounting advance facilities.

Notes:

- (a) Included in other debtors, deposits and prepayment is an amount of HK\$600,000 due from 北京科特威電子技術有限公司 (“北京科特威”), an independent developer. Pursuant to the development agreement entered between Sun Horse Technologies (H.K.) Limited (“Sun Horse”), a wholly owned subsidiary of the Company, and 北京科特威 on 30 June 2003, 北京科特威 was engaged to develop the remote electronic curtain control system and solution for Sun Horse. However, the development was not yet commenced until 31 December 2004, due to the limitation of human resources of 北京科特威. With the postponement of such development, Sun Horse and 北京科特威 have entered into another agreement in April 2005 to terminate the development and 北京科特威 agreed to repay the deposit of HK\$600,000 to Sun Horse within three months from date of the agreement. Accordingly, HK\$600,000 is classified as other debtors under current assets.
- (b) Included in other debtors, deposits and prepayments is development deposit of HK\$600,000 paid to 北京科特威. Pursuant to an agreement entered into between Hoover Technologies Limited (“Hoover”), a subsidiary of the Company, and 北京科特威 on 1 December 2003, 北京科特威 was responsible for the development of an upgraded version of GPS for a service period up to 31 December 2004 for a service fee of HK\$1,200,000. A supplementary agreement was then entered into between Hoover and 北京科特威 in early 2005 and the development period was extended to 30 June 2005 with the service fee revised to HK\$600,000. Notwithstanding the extension of the services period, the management consider that most of the development services have been rendered. Accordingly, research and development costs of HK\$600,000 substantially incurred was charged to the income statement. Meanwhile, the Group is negotiating another GPS back-end development project with 北京科特威. The directors considered that the estimated development sum would be approximately HK\$3,000,000. The remaining HK\$600,000 was regarded as deposit paid to 北京科特威.

Notes to the Financial Statements

For the year ended 31 December 2004

21. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

- (c) In May 2002, the Group entered an agreement with Sun Hong Technologies Limited ("Sun Hong"), and made a payment of HK\$6,240,000 (US\$800,000) to Sun Hong for development of Information Appliances ("IA"). Among various IA developed by Sun Hong, the directors considered that IA Box and IP sharer were substantially developed during 2003. As Sun Hong disagreed to transfer the ownership of these technical know-how to the Group, the Group and Sun Hong reached a preliminary agreement for exclusively use of these technologies for a period of two years. The Group agreed to pay Sun Hong a lump sum fee of HK\$780,000 (equivalent to USD100,000) for the exclusive rights to use the IA Box and IP sharer for a period of two years. In addition, the Group is required to pay a lump sum royalty charges quarterly or to pay royalties calculated at a percentage of sales revenue of the products that applies these technologies quarterly, whichever is higher, for a period of two years. Both the lump sum fee and royalty charges would be settled against the amount previously paid by the Group. Under such arrangements, the Group charged HK\$3,000,000 to the income statement for the year ended 31 December 2003 as research and development costs. Accordingly, a balance of HK\$3,240,000 was included in prepayments as at 31 December 2003 for the settlement of royalty charges over the period of usage.

During the year ended 31 December 2004, royalties charges of HK\$253,000 were charged to the income statement. As at 31 December 2004, a balance of HK\$2,987,000 was included in other debtors, deposits and prepayments.

Subsequent to 31 December 2004, the Group has entered into formal agreements with Sun Hong and Sun Hong agreed to repay an amount of HK\$2,730,000 to the Group by quarterly installments over one year and the remaining balance would be used to set off future royalty charges for the exclusive right to use the technologies based on relevant percentages of sales revenue of respective end products that have embedded and applied the techniques.

22. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

	2004 HK\$'000	2003 HK\$'000
Within 30 days	34,785	26,398
Between 31 to 60 days	7,723	16,282
Over 60 days	2,369	2,212
	44,877	44,892
Other creditors and accrued charges	25,239	27,972
	70,116	72,864

Included in other creditors and accrued charges are other borrowings which were interest bearing of HK\$13,005,000 as at 31 December 2004 (2003: HK\$17,866,000).

Notes to the Financial Statements

For the year ended 31 December 2004

23. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	54	17	45	13
More than one year, but not exceeding two years	54	17	45	13
More than two years, but not exceeding five years	36	20	36	20
	144	54	126	46
Less: future finance charges	(18)	(8)	—	—
Present value of lease obligations	126	46	126	46
Less: Amount due within one year shown under current liabilities			(45)	(13)
			81	33

The lease term of the plant and equipment under finance lease is 4 years. For the year ended 31 December 2004, the effective borrowing rate was 7.03%. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group entered into finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the lease of HK\$174,000 (2003: nil).

24. SHORT TERM BORROWINGS — SECURED

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	1,463	2
Bank loans	9,380	8,300
Discounting advances drawn on trade debtors	1,948	—
	12,791	8,302

Notes to the Financial Statements

For the year ended 31 December 2004

25. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the two years ended 31 December 2004:

	Accelerated tax depreciation HK\$	Tax losses HK\$	Total HK\$
At January 1, 2003	(60,000)	—	(60,000)
Credit (charge) to income statement	(106,000)	106,000	—
At December 31, 2003	(166,000)	106,000	(60,000)
Credit (charge) to income statement	58,000	2,000	60,000
At December 31, 2004	(108,000)	108,000	—

At the balance sheet date, the Group has unused tax losses of HK\$11,822,000 (2003: HK\$17,679,000) available for offset against future profits. A deferred tax asset of HK\$108,000 (2003: HK\$106,000) has been recognised in respect of HK\$619,000 (2003: HK\$609,000) of such losses. No deferred tax assets has been recognised in respect of the remaining HK\$11,203,000 (2003: HK\$17,070,000) due to the unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31 December 2004

26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Details of the share capital of the Company are as follows:		
Ordinary shares of HK\$0.1 each:		
Authorised		
At 31 December 2003 and 31 December 2004	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2003	1,000,000	100
Issue of shares upon the placing and public offer	60,000,000	6,000
Capitalisation issue	339,000,000	33,900
At 31 December 2003	400,000,000	40,000
Issue of shares upon the placing and subscription	73,000,000	7,300
At 31 December 2004	473,000,000	47,300

The following changes in the issued share capital of the Company took place during the two years ended 31 December 2004:

- (a) On 25 February 2003, 60,000,000 new ordinary shares of the Company of HK\$0.1 each were issued at HK\$0.5 per share for cash through an initial public offering by way of placing and public offer. On the same date, 339,000,000 ordinary shares of HK\$0.1 each were allotted and issued, credited as fully paid at par, to the holders of shares of the Company on the register of members at the close of business on 12 February 2003 in proportion to their existing holding by way of capitalisation of the sum of HK\$33,900,000 standing at the credit of the share premium account of the Company.

Notes to the Financial Statements

For the year ended 31 December 2004

26. SHARE CAPITAL (continued)

- (b) On 20 February 2004, a placing and subscription agreement ("Agreement") was entered into between the Company, Best Eagle International Ltd. ("Best Eagle"), a substantial shareholder of the Company, and an independent placing agent. Pursuant to the Agreement, Best Eagle agreed to place through the placing agent not less than 60,000,000 shares and up to 80,000,000 shares at the price of HK\$0.138 per placing share and Best Eagle would subscribe for the same number of shares sold under the placing at the same price of HK\$0.138 per share. The subscription was completed on 4 March 2004 and a total of 73,000,000 shares have been placed and subscribed. Net proceeds of HK\$10,074,000 was used as general working capital of the Group.

27. SHARE OPTION SCHEME

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

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

No option was granted by the Company since the adoption of the share option scheme to 31 December 2003.

Notes to the Financial Statements

For the year ended 31 December 2004

27. SHARE OPTION SCHEME (continued)

The following tables disclose details of the Company's share options and movements in such holdings during the year.

Date of grant	Exercisable period	Subscription price per share HK\$	Granted during the year and balance at 31 December 2004
Directors			
11 October 2004	11 October 2004 to 10 October 2014	0.10	8,000,000
11 October 2004	11 October 2004 to 10 October 2014	0.13	3,000,000
			11,000,000
Employees			
11 October 2004	11 October 2004 to 10 October 2014	0.10	5,000,000
11 October 2004	11 October 2004 to 10 October 2014	0.13	6,708,000
			11,708,000
			22,708,000

The share options to subscribe 22,708,000 shares in the Company outstanding at 31 December 2004 were granted to the directors and other employees of the Company. Consideration paid for each grant of option was HK\$1.00. No options were exercised and cancelled during the year. No charge was recognised in the income statement in respect of the value of share options granted.

Notes to the Financial Statements

For the year ended 31 December 2004

28. RESERVES

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Company			
At 1 January 2003	69,460	150	69,610
Shares issued at premium on placing and public offer	24,000	—	24,000
Shares issue expenses	(8,517)	—	(8,517)
Capitalisation of share premium	(33,900)	—	(33,900)
Loss for the year	—	(137)	(137)
At 31 December 2003	51,043	13	51,056
Shares issued at premium on placing and subscription	2,774	—	2,774
Shares issue expenses	(288)	—	(288)
Profit for the year	—	55	55
At 31 December 2004	53,529	68	53,597

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$53,597,000 (2003: HK\$51,056,000).

Notes to the Financial Statements

For the year ended 31 December 2004

29. PLEDGE OF ASSETS

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

	2004 HK\$'000	2003 HK\$'000
Bank deposits	23,317	20,583
Investment in securities	4,968	2,964
Investment properties	1,950	1,575
Leasehold land and buildings	5,948	6,097
Trade debtors	3,231	—
	39,414	31,219

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Office premises		
Within one year	742	1,142
In the second to fifth year inclusive	88	1,038
	830	2,180
Office equipment		
Within one year	17	—
In the second to fifth year inclusive	65	—
	82	—

Operating lease payments represent rentals payable by the Group for certain of its office properties and office equipment. Leases are fixed and negotiated for terms ranging from 12 to 60 months.

Notes to the Financial Statements

For the year ended 31 December 2004

30. OPERATING LEASE ARRANGEMENTS (continued)

The Company as lessee

At 31 December 2004, the Company had no commitments for future minimum lease payments under operating lease. At 31 December 2003, the Company had commitments for future minimum lease payments under a non-cancellable operating lease in respect of its office property which falls due within one year of HK\$57,000. Lease was fixed and negotiated for a term of 22 months.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the future minimum lease payments of HK\$51,000 (2003: HK\$247,000) under non-cancellable operating leases in respect of rented premises which fall due within one year.

Lease is fixed and negotiated for terms ranging from 12 to 24 months.

31. EMPLOYEE RETIREMENT BENEFITS

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2004

31. EMPLOYEE RETIREMENT BENEFITS (continued)

The net amount charged to income statement of HK\$674,000 (2003: credited of HK\$109,000) represents net contributions payable of these schemes by the Group in respect of the current accounting period.

32. CONTINGENT LIABILITY

The Group

At 31 December 2004, the Group has contingent liability arising from bills of exchange discounted with recourse amounting to HK\$441,000 (2003: 2,247,000).

The Company

At 31 December 2004, the Company has provided corporate guarantees of HK\$175,500,000 (2003: 151,500,000) to certain banks and an unlimited corporate guarantee (2003: nil) to a bank in respect of banking facilities granted to its subsidiaries.

33. CAPITAL COMMITMENT

At the balance sheet date, the Group had no capital commitments. In the prior year, capital commitment of HK\$166,000 represented acquisition of a motor vehicle contracted for but not provided for in the financial statements.

34. FOREIGN CURRENCY FORWARD CONTRACT COMMITMENTS

At 31 December 2004, the Group has entered into certain foreign currency forward contract agreements with banks. Under these foreign currency forward contract agreements, the Group has committed to purchase US dollars ranged from US\$17,000,000 to US\$34,000,000 (equivalent to HK\$131,708,000 to HK\$263,416,000), depending on the spot rate or the maturity date and the pre-agreed forward contract rates of respective foreign currency forward contracts.

At 31 December 2003, the Company had no commitments for foreign currency forward contract commitments.

Notes to the Financial Statements

For the year ended 31 December 2004

35. SUBSIDIARIES

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

Name of company	Place and date of incorporation/ registration	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Group	Principal activities
Apson Electronic Products Limited	Hong Kong 7 August 1990	Ordinary shares HK\$200,000	99%	Manufacturing and trading of computer components
Hoover Technologies Limited	Hong Kong 19 November 1992	Ordinary shares HK\$1,020,000	99%	Trading of electronic products
Kingful Investment Limited	Hong Kong 26 April 2002	Ordinary shares HK\$10,000	100%	Property holding
Ocean King Investment Limited	British Virgin Island 18 March 2002	Ordinary share US\$1	100%	Investment holding
Rawason Development Limited	British Virgin Islands 23 February 2000	Ordinary shares US\$1	100%	Investment holding
J-Link Group Limited	British Virgin Islands 27 May 2002	Ordinary shares US\$1	100%	Investment holding
Sunlink Hitech (BVI) Limited	British Virgin Islands 25 November 2004	Ordinary shares US\$1	100%	Investment holding
Sunlink Hi-Tech Limited (formerly known as Sunlink Hitech Limited)	Hong Kong 3 December 2004	Ordinary shares HK\$1	100%	Inactive
Sunlink Technologies Holdings Limited	British Virgin Islands 27 May 2002	Ordinary shares US\$700	100%	Investment holding
Sunlink Technologies Limited	British Virgin Islands 27 May 2002	Ordinary shares US\$1	100%	Investment holding
Sun Horse Technologies (H.K.) Limited	Hong Kong 25 July 2002	Ordinary shares HK\$10,000	100%	Trading of electronic parts



Notes to the Financial Statements

For the year ended 31 December 2004

35. SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ registration	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Group	Principal activities
Sunwave Computers Limited	Hong Kong 20 August 1991	Ordinary shares HK\$1,170,000	92%	Trading of computer components
Sunwave Development Limited	Hong Kong 18 September 1997	Ordinary shares HK\$1,100,000	99%	Trading of electronic parts
Sytech Electronics Limited	Hong Kong 11 January 1999	Ordinary shares HK\$1,000,000	100%	Trading of electronic parts
Tech-Link T & E Limited	Hong Kong 28 December 2000	Ordinary shares HK\$500,000	100%	Trading of electronic parts
駿泰陽軟件科技(深圳)有限公司 Jun Tai Yang Software Technologies (Shenzhen) Limited*	People's Republic of China ("PRC") 7 August 2000	Registered capital HK\$3,000,000	100%	Provision of technology solutions
駿泰陽科技(深圳)有限公司 Jun Tai Yang Technologies (Shenzhen) Limited*	People's Republic of China ("PRC") 25 July 2003	Registered capital HK\$1,000,000	100%	Trading of electronic parts

* All the subsidiaries registered in the PRC are wholly foreign owned enterprises.

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

None of the subsidiaries had any loan capital outstanding at 31 December 2004 or at any time during the year.