



先科國際集團有限公司*

Semtech International Holdings Limited



ANNUAL REPORT 2004



* For identification purpose only

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EXECUTIVE DIRECTORS

Mr. Lam Yat Keung (*President*)

Ms. Lam Pik Wah

Mr. Lam Hung Kit

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai

Mr. Pai Te-Tsun

Mr. Ho Chi Fai

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Ms. Yu Miu Yee, Iris

AUDIT COMMITTEE

Mr. Lo Wah Wai

Mr. Pai Te-Tsun

Mr. Ho Chi Fai

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

26/F, CCT Telecom Building,
11 Wo Shing Street,
Fotan, Shatin,
Hong Kong

LEGAL ADVISOR

Conyers Dill & Pearman,
2901, One Exchange Square,
8 Connaught Place,
Central,
Hong Kong

AUDITORS

KLL Associates CPA Limited
Suite 1303, 13/F,
Shanghai Industrial Investment Building,
60 Hennessy Road,
Wanchai,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street,
Hamilton HM 11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor,
BEA Harbour View Centre,
56 Gloucester Road,
Wanchai,
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 724

WEBSITE

www.semtech.com.hk

RESULT OVERVIEW

The year 2004 marked a milestone for the Group, the turnover during this eighteen months reporting period reached approximately HK\$559.9 million with a net profit attributable to shareholders at approximately HK\$48.4 million which improved substantially from a loss of approximately HK\$5.8 million in 2003.

DIVIDEND

The Board recommended the payment of a final dividend of HK\$0.03 per share for the period ended 31 December 2004, subject to the approval by shareholders at the forthcoming Annual General Meeting. This proposed final dividend together with the interim dividend will make a total of HK\$0.04 per share for the period from 1 July 2003 to 31 December 2004.

BUSINESS REVIEW

In March 2004, the Company has acquired 100% in Key Legend Limited ("KL"). The subsidiaries of KL are engaged in the manufacturing and trading of high-ends electronic components. As a result of the acquisition, the production capacities for the both the DIP leaded-series and SMD melf-series of diodes has greatly enhanced. The result and performance of KL justified the Group's decision on the acquisition and it is anticipated that the segment would form an important source of revenue for the Group in the coming years and to rely less on the low profit margin lighter business.

During the reporting period, the company has successfully conducted two fund raising exercises by way of "top-up" placing, the net proceeds generated amounted to approximately HK\$40.4 million, the Company has applied the proceeds for the addition of machinery, equipment and electricity generators, the reduction of bank loan facilities as well as the provision of general working capital. During the latter half of the period, the Group has repaid all bank loan and overdrafts which had been utilized and the Group is now free from any bank borrowing.

The Group is always concern about environmental conservation, the electronic components manufacturing plant has successfully obtained the ISO14001 accreditation in September 2004. The group considers the ISO14001 accreditation is beneficial to many parties. On one hand, the Group can secure the orders from world-renowned customers who have insisted on having sound environmental conservation policies, measures and facilities by their suppliers and on the other hand, the Group can help to improve the living environment for the workers and the general public for the area where its plant located.

FUTURE OUTLOOK

With the decline in the profit margin in the lighter business due to severe competition, we will, on one hand, streamline the operation in the lighter business as well as putting further effort on cost control, and on the other hand, we will keep our focus on the established direction in the electronic components industry in the coming years. Apart from the increase in production capacities in DIP leaded-series and SMD melf-series diodes after the acquisition of KL, we have put a lot of research and development effort in the SMD SOD-series diodes, which are much smaller size diode in the market that fit the requirement of miniaturization of electronic devices. These SMD SOD-series components products are widely used in smaller size sophisticated home appliances, telecommunication products, computer and consumable electronic handheld devices. The growth in demand for those sophisticated electronic products in the telecommunication and consumer market such as 3G-mobile phone, plasma and LCD TV as to the world revolution from traditional analogue TV to digital TV, together with the replacement cycle of PC for notebook, sub-notebook and PDA in coming years, provide a good opportunity for the Group to tap and capture the worldwide market growth. We expect that the first phase of the SMD SOD-series will be launched in the early 2005 and we will continuously devote more research and development resources in coming years for the second phase higher ends SMD SOD-series products.

Looking ahead, the Group will continue to cautiously emphasize not only on the existing on-going business, but also to leverage its management skills to grasp and synchronize any potential business opportunities, so as to excel the Group's results and competitive position with an objective to maximize value for our shareholders.

ACKNOWLEDGEMENTS

For and on behalf of the Board, I would like to thank my fellow directors, dedicated employees, supportive shareholders and our customers and suppliers for their confidence and continued support for the Group in the past year, the delightful performance and achievement could not been accomplished without their wholehearted devotion and commitment.

Lam Yat Keung

President

Hong Kong

16 March 2005

RESULT ANALYSIS

As a result of the change of financial year end, this financial result for the Group comprised the eighteen months period from 1 July 2003 to 31 December 2004. During this reporting period, the Group recorded a total turnover of approximately HK\$559,882,000 (2003: HK\$140,193,000), representing an increase of 399% as compared to the previous year ended 30 June 2003. The net profit attributable to shareholders during this period had made a remarkable achievement to approximately HK\$48,430,000 (2003: loss of HK\$5,811,000). Earnings per share for the period was HK21.19 cents (2003: loss per share of HK3.87 cents). The result clearly reflects the group's successful implementation of its business diversification and expansion programme during the period into the high-ends electronic and electrical parts and components sectors.

Electronic and Electrical Components Business

After the change of control of the Board at the end of 2003, the Group has acquired Key Legend Limited in March 2004, which is principally engaged in the manufacturing of high-ends electronic components that are widely used in sophisticated home appliances, telecommunication products, computer and consumable electronic handheld devices. The name of the Company has also been changed to Semtech International Holdings Limited in April 2004 to reflect the future business focus. The turnover for this new sector of business during this reporting period accounted for approximately HK\$308,445,000 with a segment profit of approximately HK\$61,483,000 before unallocated expenses and taxation.

Lighters and Lighter Related Accessories Business

The lighter and the lighter related accessories business contributed approximately 44.9% of the Group's turnover for the period to approximately HK\$251,437,000 (2003: HK\$140,193,000) with a segment profit of approximately HK\$1,548,000 (2003: loss of HK\$1,554,000) before unallocated expenses and taxation. The improvement in the result of this segment was mainly attributable to the tightened control in administration cost during the period.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a healthy financial position. During this period, the Group had repaid all utilized banking facilities. At 31 December 2004, the Group had no bank loan and no overdrafts (2003: HK\$8,397,000) but only has finance lease obligation of approximately HK\$96,000 (2003: HK\$1,677,000). The gearing ratio (defined as total interest bearing borrowing divided by shareholder's fund) was greatly improved to 0.04% (2003: 13.9%).

The Group generally finances its operations with internally generated cash flows and fund from the two fund raising exercises by way of “top-up” placing on 12 January 2004 and 12 May 2004. During the period, the Group had settled all utilized banking facilities from the banks. The Directors believe that the Group has sufficient financial resources to satisfy its operations and capital expenditures requirement.

Material Acquisition

A sale and purchase agreement and a supplementary agreement dated 11 March 2004 and 12 March 2004 has been entered into between the Company as purchaser and an independent third party Mr. Wan Bing Hung as vendor in respect of the sale and purchase of the entire issued capital of Key Legend Limited, a company incorporated in the British Virgin Island with limited liability, upon the terms and conditions therein contained. Further details of the acquisition are set out in the Company’s circular dated 26 March 2004.

Charges on Group’s Assets

During the period, the Group had repaid all utilized banking facilities in order to release the charges on its time deposit, investment properties and leasehold land and building and all corporate or personal guarantees held by the banks.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in Hong Kong dollars and US dollars. Foreign exchange exposure of the Group is minimal so long as the Hong Kong SAR Government’s policy to peg the Hong Kong dollars to the US dollars remains in effect.

Since the Group’s principal manufacturing operations are in the PRC and most of the operating expenses are denominated in Renminbi, the management is aware of possible exchange rate exposure.

Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.

Employee and Remuneration Policies

As at 31 December 2004, the Group had 2,587 (2003:1,773) employees spreading from Hong Kong to the PRC and industrial relationship had been well maintained. Employees are remunerated by reference to qualifications, experience, responsibility and performance.

Other Matters

The trading of the shares of the Company has been temporary suspended since 12 July 2004 at the request of the Company till 9 September 2004 due to the public speculation arising out of an ICAC press release and/or press reports (the "Matters"), details of which refer to Company's announcement dated 8 September 2004. The Board considers that the Matters do not have any materially adverse impact on the day-to-day operations or the financial position or the cashflow position of the Group.

PROSPECTS

The established direction of the Group include (i) manufacturing and trading of high-ends electronics and electrical parts and components; and (ii) engaging in the design, manufacture and trading of a wide range of cigarette lighters and lighter-related accessories. On top of the above, the Group is also seeking investments in broader range of sectors in order to further reduce its reliance on the low profit margin lighter industry. The strong worldwide consumer demand in the personal computer, digital television and mobile phone markets, together with the fast growing economy in China, justified the Group's decision to allocate more resources in the research and development in the expansion in the high-ends electronic components business. It is expected that the current net margin of 15% for this segment will further be enhanced with the launched of the SMD SOD-series products. Looking ahead, the Group will continue to explore alliance opportunities with more multi-national entities to accelerate our market expansion as well as to capture the potential market growth.

Executive Directors

Mr. LAM Yat Keung, aged 47, was appointed as President of the Company on 13 December 2003. He has over 25 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. He is mainly responsible for overseeing the operation and management of the Group.

Ms. LAM Pik Wah, aged 46, was appointed as Director of the Company on 13 December 2003. She has over 22 years of experience in operational management, production planning, material procurement and purchasing functions of the manufacturing industry in Hong Kong and the PRC. She is mainly responsible for internal administration of the Group. She is the wife of Mr. Lam Yat Keung.

Mr. LAM Hung Kit, aged 38, was appointed as Director of the Company on 13 December 2003. He has over 19 years of experience in sales and marketing function for overseas markets in a number of manufacturing companies in Hong Kong and the PRC. During the same period, he was also involved in the materials control and logistic management in those companies. He is mainly responsible for market development of the Group. He is the younger brother of Ms. Lam Pik Wah.

Independent Non-executive Directors

Mr. LO Wah Wai, aged 41, was appointed as Independent Non-Executive Director of the Company on 27 September 2004. Mr. Lo is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has over 17 years of experience in the accounting and finance industry. He is currently a director of Lo & Kwong C.P.A. Company Limited.

Mr. PAI Te Tsun, aged 53, was appointed as Independent Non-Executive Director of the Company on 15 January 2004. Mr. Pai has over 30 years of operational experiences, with industry expertise ranging from raw materials production, logistic management and transportation. He is currently the Chief Executive Officer of United Highway Bus Co., Ltd., the largest long-range bus transportation company in Taiwan.

Mr. HO Chi Fai, aged 48, was appointed as Independent Non-Executive Director of the Company on 15 January 2004. He graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Group, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and a electronic components manufacturer.

Senior Management

Ms YU Miu Yee, Iris, aged 36, is the Company Secretary and Financial Controller of the Group. She holds a Master of Business Administration Degree and is a fellow member of the Association of the Chartered Certified Accountants, associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Company Secretaries. She has over ten years working experience in the financial and company secretarial field. She joined the Group in January 2004.

Mr. LIN Pei Gen, aged 35, is the Assistant General Manager of the Production Department in the electronic segment in PRC of the Group. He holds a Diploma in Industrial Automation in Hunan. He has over thirteen years experience in production and technical development. Prior to joining the Group in 2004, he has been working in the PRC subsidiaries of Samsung and Johnson Electric.

Mr. AI Chuang Ping, aged 29, is the Assistant General Manager of the Customer Service Department in the electronic segment in PRC of the Group. He holds a Diploma in Mechanical Technology from the Hunan University. He has over ten years experience in quality control for electronic products and is a qualified auditor for the ISO9000 accreditation since 2000. He has been working in various electronics manufacturing companies in the quality control and administration area prior to joining the Group in 2004.

Mr. CHAN Jiu Ru, aged 40, is the Assistant General Manager of the Research and Development Department in the electronic segment in PRC of the Group. He holds a Bachelor Degree in Electronic and Accurate Mechanical Technology from Tai Yuan University of Mechanism and has over fifteen years experiences in research and development, product design and engineering development. Prior to joining the Group in 2004, he has been working in various companies as engineer and production officer in the electronics industry.

Mr. SHER Tak Chi, aged 46, is the director of the Group's subsidiaries in the lighter business, he is responsible for the overall strategic planning and business development of the lighter segment. He is also actively involved in product design and development. Mr. Sher has worked for the Group since its business inception in October 1981. He has over 27 years of experience in the manufacturing of cigarette lighters.

Mr. SO Kam Hing, aged 55, is the deputy general manager of the lighter business. He is responsible for the personnel and general management of the lighter's operation in Hong Kong. He also coordinates and supervises the operation of the Group's factories in Jiangxi and Shandong, the PRC. Mr. So graduated from the Faculty of Chemistry of the Fujian Normal University and joined the Group in September 1990.

Ms. CHENG Ying, aged 36, is the marketing manager of the lighter business. She is responsible for the sales and marketing of the lighter products and the management of the purchases of lighter materials from overseas suppliers. Ms. Cheng joined the Group in July 1990 and has 13 years of experience in the marketing of cigarette lighters.

Mr. CHA Sang Gyu, aged 50, is the general manager of Jiangxi Longnan. He is responsible for the administration and production management of Group's factory in Jiangxi, the PRC. He is also in charge of the technical and engineering development of the Group's production process in the lighter business. Mr. Cha graduated from the Mokpo Technical Institute in Korea and has 32 years of mould-making experience, of which 23 years were related to the mould-making for cigarette lighters. Before joining the Group in June 1997, Mr. Cha ran his own mould manufacturing company in Korea.

Mr. CHEN Bin, aged 45, is the general manager of Shandong Luneng. He is responsible for the administration and production management of the Group's factory in Shandong, the PRC. Mr. Chen joined the Group in May 1993. He has over 15 years of experience in the manufacturing of cigarette lighter.



REPORT OF THE DIRECTORS

The Board of Directors (the "Board") is pleased to present their report and the audited financial statements of Semtech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the period from 1 July 2003 to 31 December 2004.

CHANGE OF NAME

Pursuant to a special resolution passed at a special general meeting held on 20 April 2004, the name of the Company was changed from Millennium Sense Holdings Limited to Semtech International Holdings Limited.

CHANGE OF FINANCIAL YEAR END DATE

During the period, the Company changed its financial year end date from 30 June to 31 December. The financial statements presented cover the 18 months period from 1 July 2003 to 31 December 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and jointly controlled entity as at 31 December 2004 are set out in notes 20 and 21 respectively to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the period from 1 July 2003 to 31 December 2004 and the state of affairs of the Company and the Group at 31 December 2004 are set out in the financial statements on pages 20 to 63.

An interim dividend of HK\$0.01 per share amounting to HK\$2,925,000 was paid to the shareholders during the period. The Board recommended the payment of a final dividend of HK\$0.03 per share for the period ended 31 December 2004 to be paid on or around 13 June 2005 to shareholders whose names appear on the register of members of the Company on 10 May 2005, subject to the approval by shareholders at the forthcoming Annual General Meeting. This proposed final dividend together with the interim dividend will make a total of HK\$0.04 per share for the period from 1 July 2003 to 31 December 2004 (2003: nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the past five financial years is set out on page 64.

SHARE CAPITAL

Details of movements in the share capital of the Company during the period are set out in note 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 32 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$62,447,000 (30.6.2003: HK\$54,689,000). The Company's share premium account of HK\$104,013,000 (30.6.2003: HK\$6,459,000) could be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the period are set out in note 15 and 16 respectively to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 14% and 46%, respectively, of the total turnover of the Group for the period.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 14% and 43% respectively, of the total purchases of the Group for the period.

None of the directors, their associates or any shareholders which to the knowledge of the directors own more than 5% of the Company's share capital had any interest in the five largest suppliers or customers.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors

Mr. Sher Tak Chi	(resigned on 2 January 2004)
Ms. Kang Hsiao Fang	(resigned on 2 January 2004)
Mr. Sher Kam Hong	(resigned on 2 January 2004)
Ms. Sher Ching Yee	(resigned on 2 January 2004)
Mr. Lam Yat Keung	(appointed on 13 December 2003)
Ms. Lam Pik Wah	(appointed on 13 December 2003)
Mr. Lam Hung Kit	(appointed on 13 December 2003)
Mr. Wong Chong Kwong, Derek	(appointed on 13 December 2003 and resigned on 8 September 2004)

Independent Non-executive directors

Mr. Lo Hang Fong	(resigned on 13 November 2003)
Mr. Chan Ho Wah Terrence	(appointed on 13 November 2003 and resigned on 2 January 2004)
Mr. Leung Hoi Yin	(resigned on 2 January 2004)
Mr. Ho Chi Fai	(appointed on 15 January 2004)
Mr. Pai Te Tsun	(appointed on 15 January 2004)
Mr. Lo Wah Wai	(appointed on 27 September 2004)

In accordance with clause 87 of the Company's bye-laws, Ms. Lam Pik Wah and Mr. Lam Hung Kit will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors do not have specific terms of appointment but are subject to retirement on the same basis as the executive directors as required by the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the existing executive directors has entered into a service contract with the Company for an initial terms of two years commencing from 1 August 2004 and shall continue thereafter unless terminated in accordance with the terms of the service contracts.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

REPORT OF THE DIRECTORS

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2004, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company or The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in the Shares of the Company

Name of directors	Capacity	Number of ordinary shares held	Percentage of shareholding
Lam Pik Wah	Held by controlled corporation	51,600,000 (note 1)	17.64%
Lam Hung Kit	Held by controlled corporation	51,600,000 (note 1)	17.64%
Lam Yat Keung	Held by family	51,600,000 (note 2)	17.64%

Note 1: These ordinary shares are owned by Smart Number Investments Limited ("Smart Number"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart Number is beneficially owned as to 66.67% by Ms Lam Pik Wah and as to 33.33% by Mr. Lam Hung Kit.

Note 2: These ordinary shares are owned by Smart Number, a controlled company of Ms Lam Pik Wah, the wife of Mr. Lam Yat Keung.

Save as disclosed above, none of the directors, chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register required to notify the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company has adopted share option schemes on 30 June 2000 (the “2000 scheme”) and 28 November 2002 (the “2002 scheme”) for which the details are set out in note 31 to the financial statements.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the directors nor the chief executives, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

REPORT OF THE DIRECTORS

Long positions in the Shares of the Company

Shareholders	Capacity	Number of ordinary shares held	Percentage of shareholding
Smart Number Investments Limited	Beneficial owner	51,600,000	17.64%
Forever Gain Profits Limited (Note)	Beneficial owner	58,000,000	19.83%
Wan Bing Hung (Note)	Held by controlled corporation	58,000,000	19.83%
Wong Chong Kwong, Derek	Beneficial owner	34,400,000	11.76%
Ko Kin Hang	Beneficial owner	14,798,000	5.06%

Note:

Forever Gain Profits Limited is wholly owned by Mr. Wan Bing Hung

Save as disclosed above, the Company had not been notified of any interests representing 5 percent or more in the issued share capital of the Company as at 31 December 2004.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period and up to the date of this report, none of the directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules").

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the period are set out in note 38 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the period with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that independent non-executive directors are not appointed for a specific term but are subject to rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

An audit committee (the "Committee") was established on 3 July 2000 with written terms of reference for the purpose of reviewing the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The members of the Committee are Messrs. Lo Wah Wai, Ho Chi Fai and Pai Te Tsun, all of them are the independent non-executive directors of the Company.

AUDITORS

During the year ended 30 June 2002, Ernst & Young resigned and KLL Associates CPA Limited were appointed as auditors of the Company.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint KLL Associates CPA Limited as auditors of the Company.

On behalf of the Board

Lam Yat Keung

President

Hong Kong, 16 March 2005

REPORT OF THE AUDITORS



*Suite 1303, Shanghai Ind. Investment Building
60 Hennessy Road, Wanchai, Hong Kong*

TO THE SHAREHOLDERS OF

SEMTECH INTERNATIONAL HOLDINGS LIMITED

(FORMERLY KNOWN AS MILLENNIUM SENSE HOLDINGS LIMITED)

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the results and cash flows of the Group for the period then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KLL Associates CPA Limited

Certified Public Accountants (Practising)

Lee Ka Leung, Daniel

Practising Certificate Number P01220

Hong Kong, 16 March 2005

CONSOLIDATED INCOME STATEMENT

Period from 1 July 2003 to 31 December 2004

		1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000 (Restated)
	Notes		
Turnover	5	559,882	140,193
Cost of sales		(450,084)	(114,556)
Gross profit		109,798	25,637
Other operating income	7	9,204	3,727
Distribution expenses		(20,446)	(10,430)
Administrative expenses		(38,438)	(17,101)
Other operating expenses		(58)	(4,490)
Profit/(loss) from operations	8	60,060	(2,657)
Finance costs	9	(1,381)	(1,221)
Share of loss of a jointly controlled entity		–	(1,457)
Profit/(loss) before taxation		58,679	(5,335)
Taxation	12	(10,248)	(476)
Profit/(loss) before minority interests		48,431	(5,811)
Minority interests		(1)	–
Net profit/(loss) for the period/year		48,430	(5,811)
Dividends	13	11,700	–
Earnings/(loss) per share	14		
Basic		21.19 cents	(3.87) cents
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET At 31 December 2004

	Notes	31.12.2004 HK\$'000	30.6.2003 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	128,716	57,035
Investment properties	16	11,182	9,602
Intangible assets	17	1,689	1,187
Goodwill	18	12	–
Negative goodwill	19	(2,023)	–
Interest in a jointly controlled entity	21	424	(1,652)
Deferred tax asset	29	–	221
		<u>140,000</u>	<u>66,393</u>
CURRENT ASSETS			
Inventories	22	55,721	13,262
Trade and bills receivables	23	100,556	8,486
Prepayments, deposits and other receivables		15,417	10,891
Pledged deposits		500	2,041
Bank balances and cash		38,839	7,274
		<u>211,033</u>	<u>41,954</u>
CURRENT LIABILITIES			
Trade and bills payables	24	79,063	17,844
Other payables and accruals	25	13,601	4,985
Amounts due to directors	26	11,945	192
Tax payable		2,900	2,779
Bank borrowings	27	–	6,759
Obligations under finance leases	28	76	1,510
		<u>107,585</u>	<u>34,069</u>
NET CURRENT ASSETS		<u>103,448</u>	<u>7,885</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>243,448</u>	<u>74,278</u>

CONSOLIDATED BALANCE SHEET At 31 December 2004

	Notes	31.12.2004 HK\$'000	30.6.2003 HK\$'000 (Restated)
NON-CURRENT LIABILITIES			
Bank borrowings	27	–	1,638
Obligations under finance leases	28	20	167
Deferred taxation	29	12,301	–
		<u>12,321</u>	<u>1,805</u>
MINORITY INTERESTS			
		<u>20</u>	<u>19</u>
		<u>231,107</u>	<u>72,454</u>
CAPITAL AND RESERVES			
Share capital	30	29,250	15,000
Reserves		193,082	57,454
Proposed final dividend	13	8,775	–
		<u>231,107</u>	<u>72,454</u>

The financial statements on pages 20 to 63 were approved and authorised for issue by the Board of Directors on 16 March 2005 and are signed on its behalf by:

Lam Yat Keung
Director

Lam Pik Wah
Director

BALANCE SHEET At 31 December 2004

	Notes	31.12.2004 HK\$'000	30.6.2003 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	202,805	76,430
CURRENT ASSETS			
Prepayments, deposits and other receivables		380	28
Bank balances and cash		13,600	47
		13,980	75
CURRENT LIABILITIES			
Other payables and accruals	25	355	197
Amounts due to directors	26	11,945	160
		12,300	357
NET CURRENT ASSETS/(LIABILITIES)			
		1,680	(282)
		204,485	76,148
CAPITAL AND RESERVES			
Share capital	30	29,250	15,000
Reserves	32	166,460	61,148
Proposed final dividend	13	8,775	–
		204,485	76,148

Lam Yat Keung
Director

Lam Pik Wah
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period from 1 July 2003 to 31 December 2004

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (Note) HK\$'000	Property revaluation reserves HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Proposed final dividend HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1 July 2002								
– as originally stated	15,000	6,459	5,800	–	30,309	–	(128)	57,440
– change in accounting policy with respect to deferred tax (note 2)	–	–	–	–	580	–	–	580
– as restated	15,000	6,459	5,800	–	30,889	–	(128)	58,020
Exchange realignments	–	–	–	–	–	–	(150)	(150)
Net loss for the year	–	–	–	–	(5,811)	–	–	(5,811)
Surplus on revaluation of property	–	–	–	20,395	–	–	–	20,395
At 30 June 2003	15,000	6,459	5,800	20,395	25,078	–	(278)	72,454
Issue of shares on private placements	5,000	36,500	–	–	–	–	–	41,500
Issue of shares on exercise of share options	3,450	21,528	–	–	–	–	–	24,978
Interim dividend paid	–	–	–	–	(2,925)	–	–	(2,925)
Share issue expenses	–	(1,074)	–	–	–	–	–	(1,074)
Issue of shares on acquisition of subsidiaries	5,800	40,600	–	–	–	–	–	46,400
Exchange realignments	–	–	–	–	–	–	215	215
Net profit for the period	–	–	–	–	48,430	–	–	48,430
Proposed final dividend	–	–	–	–	(8,775)	8,775	–	–
Surplus on revaluation of property	–	–	–	1,129	–	–	–	1,129
At 31 December 2004	29,250	104,013	5,800	21,524	61,808	8,775	(63)	231,107
Attributable to:								
The Group	29,250	104,013	5,800	21,524	102,188	8,775	196	271,746
Jointly controlled entity	–	–	–	–	(40,380)	–	(259)	(40,639)
At 31 December 2004	29,250	104,013	5,800	21,524	61,808	8,775	(63)	231,107
The Group	15,000	6,459	5,800	20,395	65,458	–	(19)	113,093
Jointly controlled entity	–	–	–	–	(40,380)	–	(259)	(40,639)
At 30 June 2003	15,000	6,459	5,800	20,395	25,078	–	(278)	72,454

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares of the former Group holding company acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

CONSOLIDATED CASH FLOW STATEMENT

Period from 1 July 2003 to 31 December 2004

	Note	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
OPERATING ACTIVITIES			
Profit/(loss) from operations		60,060	(2,657)
Adjustment for:			
Interest income		(18)	(69)
Dividend income		(144)	–
Depreciation of property, plant and equipment		13,272	4,803
Amortisation of intangible assets		917	724
Amortisation of goodwill		1	–
Release of negative goodwill		(106)	–
Amortisation of deferred income		(2,076)	(1,508)
Revaluation (surplus)/deficit on leasehold land and building and investment properties		(2,421)	1,658
(Gain)/loss on disposal of property, plant and equipment		(68)	107
Gain on disposal of other investments		(75)	–
Effect of foreign exchange rate changes		215	(110)
Operating cash flows before movement in working capital		69,557	2,948
(Increase)/decrease in trade and bills receivables		(63,361)	18,746
Increase in inventories		(41,914)	(383)
Increase in prepayments, deposits and other receivables		(4,492)	(997)
Increase/(decrease) in trade and bills payables		45,290	(2,680)
Increase/(decrease) in other payables and accruals		7,606	(839)
Increase in amounts due to directors		11,753	–
Cash from operations		24,439	16,795
Interest paid on bank borrowings		(1,298)	(1,021)
Interest paid on finance leases		(83)	(200)
Hong Kong Profits Tax paid		(37)	(81)
NET CASH FROM OPERATING ACTIVITIES		23,021	15,493
INVESTING ACTIVITIES			
Interest received		18	69
Purchase of property, plant and equipment		(46,007)	(4,173)
Additions to intangible assets		(1,419)	(488)
Decrease/(increase) in pledged bank deposits		1,541	(13)
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	34	1,932	–
Dividends received		144	–
Proceeds from disposal of property, plant and equipment		230	2,884
Purchase of other investments		(17,765)	–
Proceeds from disposal of other investments		17,840	–
NET CASH USED IN INVESTING ACTIVITIES		(43,486)	(1,721)

CONSOLIDATED CASH FLOW STATEMENT Period from 1 July 2003 to 31 December 2004

	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
FINANCING ACTIVITIES		
New bank borrowings raised	–	1,420
Repayments of bank borrowings	(6,240)	(1,667)
Repayments of obligations under finance lease	(2,052)	(2,040)
Proceeds from issue of shares on private placements	41,500	–
Proceeds from issue of shares on exercise of share options	24,978	–
Dividends paid	(2,925)	–
Share issue expenses	(1,074)	–
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	54,187	(2,287)
INCREASE IN CASH AND CASH EQUIVALENTS	33,722	11,485
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR	5,117	(6,368)
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	38,839	5,117
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	38,839	7,274
Bank overdrafts	–	(2,157)
	38,839	5,117

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 20 to the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the term of HKFRS is inclusive of Statements of Standards Accounting Practice ("SSAP") and Interpretations approved by the HKICPA.

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, under which a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for the year ended 30 June 2003 have been restated accordingly. As a result of this change in policy, the balance of retained profits at 1 July 2002 has been increased by HK\$580,000, representing the cumulative effect of the change in policy on the results for periods prior to 1 July 2002. The change has resulted in a decrease in the net profit for the period of HK\$10,090,000 and an increase in the net loss for the year ended 30 June 2003 of HK\$359,000.

3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised HKFRS and Hong Kong Accounting Standards ("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 period ended 31 December 2004. The Group has already commenced an assessment of 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and building and investment properties, and in accordance with accounting principles generally accepted in Hong Kong. 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.

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account their residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	2% to 4%
Plant and machinery	10% to 25%
Leasehold improvements and others	10% to 25%

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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 unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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 unless the relevant asset is carried at revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

4. SIGNIFICANT 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 an annual professional valuation at the balance sheet date. Any surplus or deficit 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 deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is included in the determination of the profit or loss on disposal.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is capitalised and amortised on straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a 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 expense 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 in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Intangible assets

Intangible assets represent expenses incurred for the application and registration of trademarks and patents. They are stated at cost less amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of trademarks and patents over its estimated useful life, using the straight line method over periods not exceeding five years.

Leased assets

Lessor

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 lessees.

All other leases are classified as operating leases and the rental income is recognised on a straight-line basis over the relevant lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leased assets *(Continued)*

Lessee

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.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

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

Revenue recognition

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

Rental income is recognised on a straight line basis over the relevant lease terms.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and 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 profits 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.

Foreign currencies

Transactions in currencies other than Hong Kong dollar are translated at the rates ruling on the date of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollar are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the eligible employees' salaries pursuant to relevant pension regulations. Contributions to the central pension scheme are charged to income statement as incurred.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

6. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products. Details of the business segments are as follows:

- a) Electronic product segment engages in the manufacture and trading of electronic and electrical parts and components.
- b) Lighter product segment engages in the design, manufacture and sale of cigarette lighters and related accessories.

6. SEGMENT INFORMATION (Continued)

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

(a) Business segments

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

THE GROUP

	Electronic products		Lighter products		Consolidated	
	1.7.2003	1.7.2002	1.7.2003	1.7.2002	1.7.2003	1.7.2002
	to	to	to	to	to	to
	31.12.2004	30.6.2003	31.12.2004	30.6.2003	31.12.2004	30.6.2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	308,445	–	251,437	140,193	559,882	140,193
Segment results	61,483	–	1,548	(1,554)	63,031	(1,554)
Interest income					18	69
Net unallocated expenses					(2,989)	(1,172)
Profit/(loss) from operations					60,060	(2,657)
Finance costs					(1,381)	(1,221)
Share of loss of a jointly controlled entity					–	(1,457)
Profit/(loss) before taxation					58,679	(5,335)
Taxation					(10,248)	(476)
Profit/(loss) before minority interests					48,431	(5,811)
Minority interests					(1)	–
Net profit/(loss) for the period/year					48,430	(5,811)

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

THE GROUP

	Electronic products		Lighter products		Consolidated	
	31.12.2004	30.6.2003	31.12.2004	30.6.2003	31.12.2004	30.6.2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	196,627	–	114,763	102,476	311,390	102,476
Interests in a jointly controlled entity					424	(1,652)
Unallocated assets					39,219	7,523
Total assets					<u>351,033</u>	<u>108,347</u>
Segment liabilities	35,391	–	56,918	23,021	92,309	23,021
Unallocated liabilities					27,597	12,853
Total liabilities					<u>119,906</u>	<u>35,874</u>
Other segment information:						
Capital expenditures	42,905	–	4,992	7,062	47,897	7,062
Depreciation and amortisation	6,003	–	8,187	5,527	<u>14,190</u>	<u>5,527</u>

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

THE GROUP

	United States of America		Hong Kong		Elsewhere in the PRC		Asia		Others		Consolidated	
	1.7.2003	1.7.2002	1.7.2003	1.7.2002	1.7.2003	1.7.2002	1.7.2003	1.7.2002	1.7.2003	1.7.2002	1.7.2003	1.7.2002
	to	to	to	to	to	to	to	to	to	to	to	to
	31.12.2004	30.6.2003	31.12.2004	30.6.2003	31.12.2004	30.6.2003	31.12.2004	30.6.2003	31.12.2004	30.6.2003	31.12.2004	30.6.2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	92,780	55,226	116,846	5,640	223,086	10,580	67,331	28,359	59,839	40,388	559,882	140,193
Other operating income	-	-	4,819	3,292	4,271	266	-	34	114	135	9,204	3,727
Total revenue	92,780	55,226	121,665	8,932	227,357	10,846	67,331	28,393	59,953	40,523	569,086	143,920
Other segment information:												
Segment assets	-	-	170,473	50,263	180,560	58,039	-	45	-	-	351,033	108,347
Capital expenditure	-	-	2,314	2,888	45,583	4,174	-	-	-	-	47,897	7,062

The contribution to profit/(loss) from operating activities by geographical area is substantially in line with the overall rate of contribution to turnover and, accordingly, a geographical analysis of contribution, which is discloseable pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), is not presented.

7. OTHER OPERATING INCOME

	THE GROUP	
	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Dividend income	144	—
Amortisation of deferred income	2,076	2,007
Gross rental income	542	506
Less: Outgoings	64	40
Net rental income	478	466
Interest income	18	69
Gain on disposal of machineries held for resale	1,203	—
Revaluations surplus on:		
Leasehold land and buildings	841	—
Investment properties	1,580	—
Gain on disposal of property, plant and equipment	68	—
Exchange gains, net	8	135
Release of negative goodwill to income	106	—
Gain on disposal of other investments	75	—
Freight charge income	745	—
Others	1,862	1,050
	9,204	3,727

8. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations has been arrived at after charging:

	THE GROUP	
	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Auditors' remuneration	520	240
Depreciation and amortisation		
Depreciation of property, plant and equipment	13,272	4,803
Amortisation of intangible assets (included in administrative expenses)	917	724
Amortisation of goodwill (included in administrative expenses)	1	—
Total depreciation and amortisation	14,190	5,527
Staff costs		
Directors' remuneration (note 10)	3,511	2,863
Salaries and other benefit of other staff	17,442	9,272
Retirement benefit scheme contributions, excluding directors	459	159
Total staff costs	21,412	12,294
Revaluation deficit on:		
Leasehold land and buildings	—	348
Investment properties	—	1,310
Loss on disposal of property, plant and equipment	—	107

9. FINANCE COSTS

	THE GROUP	
	1.7.2003	1.7.2002
	to	to
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Interests on:		
bank borrowings and overdrafts	1,298	1,021
finance leases	83	200
	<u>1,381</u>	<u>1,221</u>

10. DIRECTORS' EMOLUMENTS

	THE GROUP	
	1.7.2003	1.7.2002
	to	to
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	148	210
	<u>148</u>	<u>210</u>
Other emoluments:		
Salaries and other benefits	3,330	2,616
Retirement benefits scheme contributions	33	37
	<u>3,363</u>	<u>2,653</u>
Total emoluments	<u>3,511</u>	<u>2,863</u>

The emoluments of the directors were within the following bands:

	Number of directors	
	1.7.2003	1.7.2002
	to	to
	31.12.2004	30.6.2003
Nil – HK\$1,000,000	14	5
HK\$2,000,001 – HK\$2,500,000	<u>–</u>	<u>1</u>

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (1.7.2002 – 30.6.2003: four) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emolument of the remaining NIL (1.7.2002 – 30.6.2003: one) individual was as follows:

	THE GROUP	
	1.7.2003	1.7.2002
	to	to
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Salaries and other benefits	–	513

The emolument was within the following band:

	Number of employees	
	1.7.2003	1.7.2002
	to	to
	31.12.2004	30.6.2003
Nil to HK\$1,000,000	–	1

12. TAXATION

	THE GROUP	
	1.7.2003	1.7.2002
	to	to
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Hong Kong Profits Tax		
– current period/year	160	5
– (overprovision)/underprovision in prior years	(2)	112
	158	117
Deferred taxation (Note 29)	10,090	359
	10,248	476

Hong Kong Profits Tax is calculated at 17.5% (1.7.2002-30.6.2003: 17.5%) of the estimated assessable profits arising in Hong Kong for the period/year.

12. TAXATION (Continued)

The taxation for the period/year is reconciled to the profit/(loss) before taxation per the consolidated income statement as follows:

	THE GROUP	
	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Profit/(loss) before taxation	<u>58,679</u>	<u>(5,335)</u>
Tax at the domestic income tax rate of 17.5% (1.7.2002-30.6.2003: 17.5%)	10,269	(934)
Tax effect of expenses that are not deductible in determining taxable profit	270	1,379
Tax effect of income that is not taxable in determining taxable profit	(870)	(120)
Utilisation of tax losses previously not recognised	(118)	(125)
Tax effect of tax losses not recognised	1,877	482
(Overprovision)/Underprovision in prior years	(2)	112
Effect of different tax rates of subsidiaries operating in other jurisdiction	(1,178)	(264)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	<u>—</u>	<u>(54)</u>
Taxation for the period/year	<u>10,248</u>	<u>476</u>

13. DIVIDENDS

	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Interim dividend of HK\$0.01 (1.7.2002 – 30.6.2003: nil) per share	2,925	–
Proposed final dividend of HK\$0.03 (1.7.2002 – 30.6.2003: nil) per share	8,775	–
	11,700	–

The directors proposed a final dividend of HK\$0.03 per share. This proposed dividend is not reflected as a liability at 31 December 2004 as it is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$48,430,000 (1.7.2002-30.6.2003 (restated): loss of HK\$5,811,000) and the weighted average number of 228,604,000 (1.7.2002-30.6.2003: 150,000,000) ordinary shares in issue during the period.

Diluted earnings or loss per share amounts for the period/year have not been presented as there were no dilutive potential ordinary shares outstanding at the period/year end.

15. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST OR VALUATION					
At 1 July 2003	35,869	45,437	4,546	816	86,668
Additions	–	43,358	1,289	1,831	46,478
Acquisition of subsidiaries	–	37,882	24	–	37,906
Disposals	–	–	(500)	–	(500)
Transfer	96	1,061	–	(1,157)	–
Surplus on revaluation	1,812	–	–	–	1,812
At 31 December 2004	37,777	127,738	5,359	1,490	172,364
Comprising:					
At cost	–	127,738	5,359	1,490	134,587
At valuation	37,777	–	–	–	37,777
	37,777	127,738	5,359	1,490	172,364
DEPRECIATION					
At 1 July 2003	–	26,380	3,253	–	29,633
Provided for the period	158	12,282	832	–	13,272
Acquisition of subsidiaries	–	1,238	1	–	1,239
Eliminated on disposals	–	–	(338)	–	(338)
Eliminated on revaluation	(158)	–	–	–	(158)
At 31 December 2004	–	39,900	3,748	–	43,648
NET BOOK VALUES					
At 31 December 2004	37,777	87,838	1,611	1,490	128,716
At 30 June 2003	35,869	19,057	1,293	816	57,035

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of properties shown above comprises:

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Land in Hong Kong:		
Long-term lease	4,353	3,724
Medium-term lease	1,170	1,116
Land outside Hong Kong:		
Medium-term lease	32,254	31,029
	37,777	35,869

The leasehold land and buildings of the Group in Hong Kong and the PRC were valued at 31 December 2004 by Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, on an open market value basis. Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited is not connected with the Group.

If leasehold land and buildings of the Group had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$17,222,000 (30.6.2003: HK\$17,380,000).

The net book value of machinery and a motor vehicle (grouped under leasehold improvements and other) held under finance leases as at 31 December 2004 amounted to HK\$NIL (30.6.2003: HK\$3,663,000) and HK\$413,000 (30.6.2003: HK\$211,000) respectively.

The Group has pledged the leasehold land and buildings situated in Hong Kong with a net book value of HK\$NIL (30.6.2003: HK\$4,840,000) to secure general banking facilities granted to the Group.

16. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
At 1 July 2003	9,602
Revaluation increase	1,580
At 31 December 2004	11,182

The Group's investment properties are situated in Hong Kong and held under long-term leases. Investment properties were valued at their open market value at 31 December 2004 by Messrs. Dynasty Premium Asset Valuation & Real Estate Consultancy Limited. This valuation gave rise to a revaluation increase of HK\$1,580,000 which has been credited to the consolidated income statement.

The Group has pledged the investment properties situated in Hong Kong with a net book value of HK\$NIL (30.6.2003: HK\$9,602,000) to secure general banking facilities granted to the Group.

17. INTANGIBLE ASSETS

THE GROUP	Trademark and patents HK\$'000
COST	
At 1 July 2003	3,623
Additions	1,419
At 31 December 2004	5,042
AMORTISATION	
At 1 July 2003	2,436
Charge for the period	917
At 31 December 2004	3,353
NET BOOK VALUE	
At 31 December 2004	1,689
At 30 June 2003	1,187

18. GOODWILL

THE GROUP	HK\$'000
COST	
Arising on acquisition of a subsidiary during the period and at 31 December 2004	13
AMORTISATION	
Charge for the period and at 31 December 2004	1
NET BOOK VALUE	
At 31 December 2004	12
At 30 June 2003	–

Goodwill on consolidation is amortised on a straight-line basis over 20 years.

19. NEGATIVE GOODWILL

THE GROUP	HK\$'000
GROSS AMOUNT	
Arising on acquisition of subsidiaries during the period and at 31 December 2004	2,129
RELEASED TO INCOME	
Released in the period and at 31 December 2004	106
CARRYING AMOUNT	
At 31 December 2004	2,023
At 30 June 2003	–

Negative goodwill is released to income on a straight-line basis over 20 years.

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Unlisted shares, at cost	108,915	62,515
Amounts due from subsidiaries	93,890	13,915
	202,805	76,430

The amounts due from subsidiaries are unsecured, interest-free and repayable after one year.

Particulars of the subsidiaries at 31 December 2004 are as follows:

Name	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Classic Line International Limited	British Virgin Islands	US\$16	100	–	Investment holding
Eversun Corporation Limited	Hong Kong	HK\$2	–	100	Trading of cigarette lighters
Headjoin Limited	Hong Kong	HK\$2	–	100	Property investment
Longnan County Poly Action Plastic & Metal Products Co., Limited	PRC	US\$4,500,000	–	100	Manufacturing of cigarette lighters and lighters parts
Polycity Enterprise Limited	Hong Kong	HK\$2	–	100	Trading of cigarette lighters
PT. Magastand Industries	Indonesia	US\$250,000	–	99	Dormant
Ribbon Worldwide Limited	British Virgin Islands	US\$1	–	100	Investment holding

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tak Fi Brothers Limited	British Virgin Islands	US\$2	–	100	Investment holding, product design and trading of cigarette lighters and related products
Kingtech Industrial Limited	Hong Kong	HK\$1	–	100	Trading of cigarette lighters
Link Triumph Limited	British Virgin Islands	US\$1	–	100	Investment holding
Sharp Technology Limited	British Virgin Islands	US\$1	100	–	Investment holding
Key Legend Limited	British Virgin Islands	US\$2	100	–	Investment holding
Semtech International (BVI) Limited	British Virgin Islands	US\$1	100	–	Investment holding
Fast Harvest Limited	Hong Kong	HK\$2	–	100	Provision of management service
Super Victory Enterprises Limited	Hong Kong	HK\$2	–	100	Manufacturing and trading of electrical parts and components
Top Victory Industries Limited	British Virgin Islands	US\$1	–	100	Investment holding
SV Semiconducators Limited	Hong Kong	HK\$2	–	100	Trading of electronic and electrical parts and components
Semtech Electronics Limited	Hong Kong	HK\$1,000,000	–	100	Trademark holding

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Amount due from a jointly controlled entity	3,132	3,132
Deferred income	(2,708)	(4,784)
	<u>424</u>	<u>(1,652)</u>

The amount due from a jointly controlled entity is unsecured, interest-free and repayable after one year. Deferred income arising from sales of production machinery and moulds to the jointly controlled entity is amortised over 5 to 10 years, which approximates the useful lives of the machinery and moulds.

Particulars of the jointly controlled entity are as follows:

Name of entity	Form of business structure	Place of incorporation and operation	Percentage of paid-up capital held by the Group	Principal activities
Shangdong Luneng Plastics & Metal Mfy. Co., Ltd	Corporate	PRC	50	Manufacturing of cigarette lighters and lighter parts

The Group's entitlement to share in the profits of its jointly controlled entity is in proportion to its ownership interest.

22. INVENTORIES

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Raw materials	40,392	5,665
Work in progress	4,034	3,433
Finished goods	11,295	4,164
	<u>55,721</u>	<u>13,262</u>

All the inventories are carried at cost.

23. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade and bills receivable at the balance sheet date:

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Within 3 months	92,277	3,943
4 – 6 months	1,460	1,350
7 – 12 months	5,494	1,722
13 – 24 months	1,325	1,471
	<u>100,556</u>	<u>8,486</u>

24. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables at the balance sheet date:

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Within 3 months	74,900	15,911
4 – 6 months	3,842	519
7 – 12 months	319	1,009
13 – 24 months	2	33
Over 24 months	–	372
	<u>79,063</u>	<u>17,844</u>

Included in trade and bills payables at 31 December 2004 was a trade and bills payable of HK\$17,237,000 (30.6.2003: HK\$12,173,000) due to the jointly controlled entity of the Group, which was unsecured, interest-free and had no fixed terms of repayment.

25. OTHER PAYABLES AND ACCRUALS

	THE GROUP		THE COMPANY	
	31.12.2004	30.6.2003	31.12.2004	30.6.2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables and accruals	13,601	4,898	355	120
Amounts due to related companies	–	87	–	77
	<u>13,601</u>	<u>4,985</u>	<u>355</u>	<u>197</u>

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

26. AMOUNTS DUE TO DIRECTORS

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

27. BANK BORROWINGS

	THE GROUP	
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Bank overdrafts, secured	–	2,157
Bank loans, secured	–	6,240
	<u>–</u>	<u>8,397</u>
The maturity profile of the above loans and overdrafts is as follows:		
On demand or within one year	–	6,759
More than one year, but not exceeding two years	–	647
More than two years, but not exceeding five years	–	991
	<u>–</u>	<u>8,397</u>
Less: Amounts due within one year shown under current liabilities	–	(6,759)
	<u>–</u>	<u>1,638</u>

27. BANK BORROWINGS *(Continued)*

The Group's bank loans and overdrafts are secured by:

- (i) all-monies legal charges over the Group's leasehold land and buildings and investment properties situated in Hong Kong with an aggregate carrying value of HK\$NIL (30.6.2003: HK\$14,442,000) at the balance sheet date as set out in notes 15 and 16;
- (ii) the pledge of the Group's time deposits amounting to HK\$500,000 (30.6.2003: HK\$2,041,000).

28. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payment	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Amounts payable under finance leases:				
Within one year	79	1,594	76	1,510
In the second to fifth years inclusive	20	171	20	167
	99	1,765	96	1,677
Less: Future finance charges	(3)	(88)	–	–
Present value of lease obligations	96	1,677	96	1,677
Less: Amounts due within one year shown under current liabilities			(76)	(1,510)
Amounts due after one year			20	167

The Group leases a motor vehicle for its business operation. The lease is classified as finance leases and has a remaining lease term of 2 years.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

29. DEFERRED TAXATION

	Accelerated tax depreciation	Tax losses	Provision for doubtful debts	Total
At 1 July 2002				
– as previously reported	–	–	–	–
– adjustment on adoption of SSAP 12 (Revised) (Note 2)	516	(883)	(213)	(580)
– as restated	516	(883)	(213)	(580)
Charge to income for the year	288	125	–	413
Effect of change in tax rate				
– Charge/(credit) to income for the year	48	(83)	(19)	(54)
At 30 June 2003	852	(841)	(232)	(221)
Acquisition of subsidiaries	6,417	(3,985)	–	2,432
Charge to income for the period	5,955	4,135	–	10,090
At 31 December 2004	13,224	(691)	(232)	12,301

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purposes:

	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Deferred tax liabilities	13,224	852
Deferred tax assets	(923)	(1,073)
	12,301	(221)

29. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of HK\$16,756,000 (2003: HK\$7,561,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$3,949,000 (2003: HK\$4,806,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$12,809,000 (2003: HK\$2,755,000) due to the unpredictability of future profits streams.

The Company had no significant unprovided deferred taxation for the period or at the balance sheet date.

30. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 July 2002, 30 June 2003 and 31 December 2004	800,000,000	80,000
Issued and fully paid:		
At 1 July 2002 and 30 June 2003	150,000,000	15,000
Issued on private placements (note a)	50,000,000	5,000
Issued on exercise of share options (note b)	34,500,000	3,450
Issued in consideration for the acquisition of subsidiaries (note c)	58,000,000	5,800
At 31 December 2004	292,500,000	29,250

Notes:

- (a) During the period ended 31 December 2004, arrangements were made for private placements to provide additional working capital for the Group and details are as follows:

Issue date	Number of ordinary shares	Issue price
12 January 2004	30,000,000	HK\$0.63
12 May 2004	20,000,000	HK\$1.13
	50,000,000	

30. SHARE CAPITAL *(Continued)*

- (b) On 5 January 2004, the Company issued 15,000,000 ordinary shares at the price of HK\$0.347 per share upon the exercise of share options granted to certain employees. On 1 April 2004, the Company issued 19,500,000 ordinary shares at the price of HK\$1.014 per upon the exercise of share options granted to certain employees.
- (c) On 10 May 2004, the Company allotted 58,000,000 ordinary shares at the price of HK\$0.80 per share as consideration for the acquisition of Key Legend Limited.

31. SHARE OPTION SCHEME

The Company has adopted share option schemes on 30 June 2000 (the "2000 Scheme") and 28 November 2002 (the "2002 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Details are set out below:

(a) 2000 Scheme

Pursuant to the terms of the 2000 Scheme which terminated on 28 November 2002, the Company may grant options to the Company's directors and full-time employees of the Group.

The maximum number of unexercised share options permitted to be granted under the 2000 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No share options have been granted under the 2000 Scheme.

(b) 2002 Scheme

On 28 November 2002, the Company adopted the 2002 Scheme which will expire on 27 November 2012. Pursuant to the terms of the 2002 Scheme, the directors of the Company may grant options to directors and full time employees of the Company or its subsidiaries to subscribe for shares in the Company at a consideration of HK\$1. The subscription price for the shares under the 2002 Scheme shall be a price determined by the directors of the Company being at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares. Options granted are exercisable at any time during a period to be notified by the directors of the Company but limited to a maximum period of ten years after the date the options are granted. Options granted should be accepted within 28 days from the date of offer.

31. SHARE OPTION SCHEME *(Continued)*

(b) 2002 Scheme *(Continued)*

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the 2002 Scheme becomes unconditional.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to employees specifically identified by the Company before shareholders' approval is sought.

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each employee (including both exercised and outstanding options) in any twelve month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to an employee would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such employee and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Set out below was the options granted during the period:

Participants	Date of grant	Exercise price HK\$	Balance of 1 July 2003	Number of share options		Balance of 31 December 2004
				Granted during the period	Exercised during the period	
Employees	5 January 2004	0.347	–	15,000,000	15,000,000	–
Employees	1 April 2004	1.014	–	19,500,000	19,500,000	–

The closing price of the Company's shares immediately before the date on which the options were granted in respect of the grant in January and April 2004 was HK\$0.345 and HK\$1.01 respectively. The weighted average closing price immediately before five days on which the option were exercised in respect of the grant in January and April 2004 was HK\$0.345 and HK\$1.01 respectively. No options were cancelled and lapsed during the period.

32. RESERVES

The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	(Accumulated losses)/ retained profit HK\$'000	Total HK\$'000
At 1 July 2002	6,459	62,315	(6,453)	62,321
Net loss for the year	—	—	(1,173)	(1,173)
At 30 June 2003	6,459	62,315	(7,626)	61,148
Issue of shares on private placements	36,500	—	—	36,500
Issue of shares on exercise of share options	21,528	—	—	21,528
Issue of shares on acquisition of subsidiaries	40,600	—	—	40,600
Share issue expenses	(1,074)	—	—	(1,074)
Net profit for the period	—	—	19,458	19,458
Interim dividends paid	—	—	(2,925)	(2,925)
Proposed final dividend	—	—	(8,775)	(8,775)
At 31 December 2004	104,013	62,315	132	166,460

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's share issued in exchange therefor.

33. MAJOR NON-CASH TRANSACTION

During the period, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK\$471,000 (1.7.2002 to 30.6.2003: HK\$2,400,000)

34. ACQUISITION OF SUBSIDIARIES

	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Net assets acquired		
Property, plant and equipment	36,667	—
Inventories	545	—
Trade and bills receivables	28,709	—
Prepayment, deposits and other receivables	34	—
Bank balances and cash	1,932	—
Trade payables	(15,929)	—
Other payable and accruals	(1,010)	—
Deferred taxation	(2,432)	—
	<hr/>	<hr/>
	48,516	—
Negative goodwill	(2,129)	—
Goodwill	13	—
	<hr/>	<hr/>
Total consideration	46,400	—
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Cash consideration	—	—
Bank balances and cash acquired	1,932	—
	<hr/>	<hr/>
Net cash inflow arising on acquisition	1,932	—
	<hr/>	<hr/>

The subsidiaries acquired during the period ended 31 December 2004 contributed HK\$308,445,000 to the Group's turnover, and HK\$61,483,000 to the Group's profit from operations.

35. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Guarantees given to banks, in respect of banking facilities utilised by subsidiaries	–	–	–	16,703
Bills discounted with recourse	–	8,306	–	–
	<u>–</u>	<u>8,306</u>	<u>–</u>	<u>16,703</u>

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Minimum lease payments paid under operating leases during the period/year	<u>1,886</u>	<u>264</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Within one year	1,989	113
In the second to fifth years inclusive	<u>4,703</u>	<u>–</u>
	<u>6,692</u>	<u>113</u>

36. OPERATING LEASE ARRANGEMENTS *(Continued)*

The Group as lessee *(Continued)*

Operating lease payments represent rentals payable by the Group for certain of its godowns, office and production plant. Leases are negotiated for terms from one to five years.

The Group as lessor

The Group leases its investment properties as set out in note 16 to the financial statements under operating lease arrangements, with leases negotiated for term ranging from 1 to 2 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Within one year	545	50
In the second to fifth years inclusive	1,009	–
	<u>1,554</u>	<u>50</u>

37. CAPITAL COMMITMENTS

	THE GROUP	
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Capital expenditure in respect of the acquisition of property, plant and equipment	<u>5,593</u>	<u>3,955</u>

38. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with its jointly controlled entity:

	THE GROUP	
	1.7.2003	1.7.2002
	to	to
	31.12.2004	30.6.2003
	HK\$'000	HK\$'000
Purchases of finished goods	59,646	45,318
Purchases of raw materials	1,132	21
Sales of raw materials	(14,615)	(10,532)
Sales of machinery and moulds	—	(638)

The above transactions were carried out on terms agreed between the Group and the jointly controlled entity and were conducted in the normal course of business with reference to the prevailing market prices.

Details of the Group's trade balances with the jointly controlled entity at the balance sheet date, are disclosed in note 24 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interest of the Group prepared on the bases set out in the note below is as follows. This summary does not form part of the audited financial statements.

RESULTS

	Period from 1 July 2003 to 31 December 2004 HK\$'000	2003 HK\$'000 (Restated)	Year ended 30 June		
			2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	559,882	140,193	122,560	171,400	192,302
PROFIT/(LOSS) FROM OPERATIONS	60,060	(2,657)	(2,500)	(1,317)	45,903
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	48,430	(5,811)	(9,763)	(8,541)	30,862

ASSETS AND LIABILITIES

	At 31 December 2004 HK\$'000	2003 HK\$'000 (Restated)	At 30 June		
			2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TOTAL ASSETS	351,033	108,347	104,005	113,338	146,054
TOTAL LIABILITIES	(119,906)	(35,874)	(46,546)	(46,690)	(71,249)
MINORITY INTERESTS	(20)	(19)	(19)	—	—
NET ASSETS	231,107	72,454	57,440	66,648	74,805

Note:

The results of the Group for the period/years ended 31 December 2004, 30 June 2003, 30 June 2002, 30 June 2001 and 30 June 2000 have been extracted from the audited financial statements for the period / years ended 31 December 2004, 30 June 2003, 30 June 2002, 30 June 2001 and 30 June 2000.