

D A K A

PASSION FOR  
INNOVATION

[www.daka-designs.com](http://www.daka-designs.com)



*ideas to life*

Daka Designs Limited  
Annual Report 2004

# corporate profile

Daka Designs Limited ("Daka" or "the Group") is engaged in the design, development and marketing of innovative products for the global consumer market. We deploy core technologies and applications specifically identified and developed through the Group's design and development efforts.

Daka licenses the use of well-known and established brands of third parties for its products. Daka is positioned to capitalize on the existing market recognition and goodwill of these brands such as HUMMER™, which is targeted at the affluent lifestyle population segment, ACDelco® for the automotive related accessories, SEA-DOO® and EVINRUDE® for the sports enthusiasts in the Sports and Leisure category and NATIONAL GEOGRAPHIC™ for the adventurous explorers.

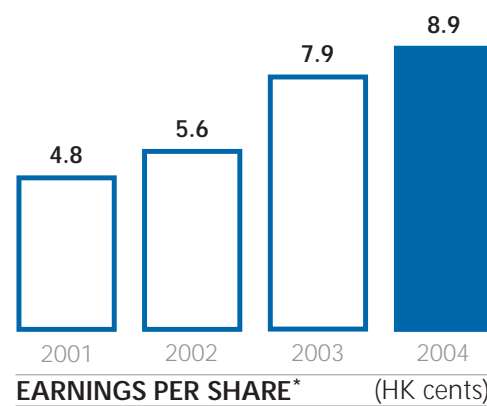
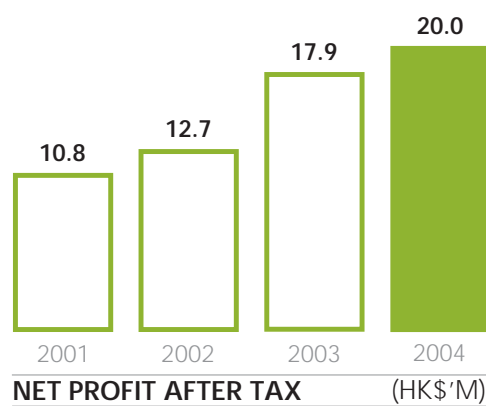
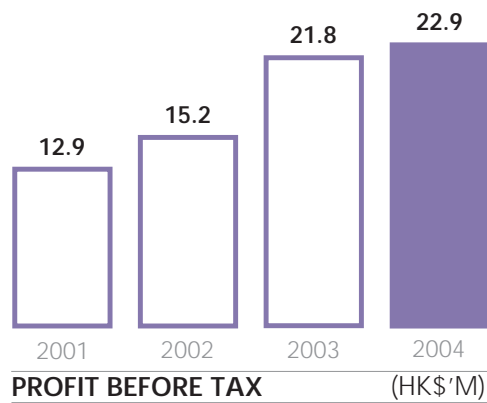
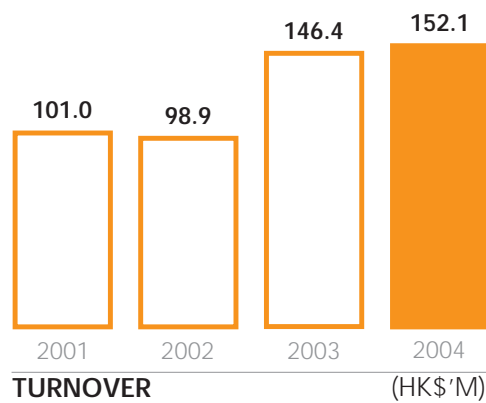
The Group's primary focus is to identify new and innovative applications for existing technologies. Daka's products are generally categorized under three distinct groups. These include the LifeStyle segment (e.g. Our Innovative Clock series, including our award winning Pin Clock, The "No Battery, No Bulb" Emergency Torches and our patented Electronic Pest Control Devices), Sports and Leisure segment (e.g. Personal Water Scooters such as our SEA-DOO®SEASCOOTER™ series, Portable Bicycle Motor, Bicycle Motor Drive (ZETA III) and our Sinclair Wheelchair Drive Unit (WDU) drive units) and Marine segment which includes a line of recreational fish and depth finders for boating and fishing enthusiasts.

Since its inception, Daka has developed numerous different innovative products and established a substantial Intellectual Property portfolio, enabling the Group to enter into strategic Trade Mark licensing agreements. Daka has won many prestigious awards in Hong Kong SAR for its products such as the Faraday Star "No Battery No Bulb" Emergency Light and the Pin Clock and was awarded the iF Design award in March 2004 by the International Forum Design for the "Dual Power Eternal Light – The Ultimate Flashlight" product.

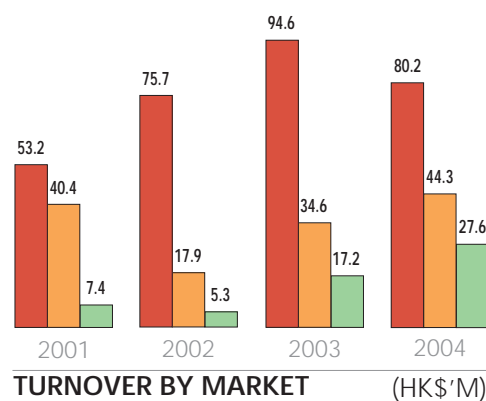
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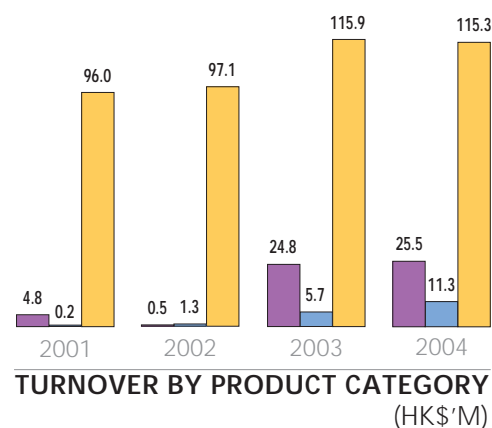
# financial highlights



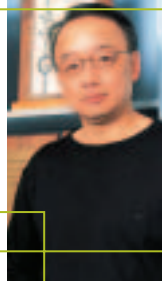
\* Computed based on pre-Invitation number of shares of 225,560,000



■ USA and Canada  
 ■ Asia  
 ■ Europe and Others\*  
 \* Others includes Middle East and Africa



■ Sports and Leisure  
 ■ Marine  
 ■ LifeStyle



## chairman's statement

### Dear Shareholders,

On behalf of the Board of Daka Designs Limited, I am delighted to present to you our first annual report as a publicly listed company.

The financial year for the period ended 31 March 2004 ("FY2004") had been a historic year for us, both in our business operations and in the preparations for our Initial Public Offering ("IPO"). We were successfully listed on the Mainboard of the Singapore Exchange Securities Trading Limited on 16 July 2004 and unveiled the world's smallest and lightest foldable bicycle, the A-Bike by our Non-Executive Director Sir Clive Sinclair in conjunction with our IPO launch.

Despite widespread uncertainty in the global economy and a competitive consumer environment, Daka has remained committed and focused on its core business, whilst responding to the ever-evolving market demands and trends. I am happy to note our passion for innovation and relentless pursuit of bringing new ideas to life has certainly paid off. This year's positive results have demonstrated the value of our mission statement and the relevance of our strategies.

### Financial Highlights

The Group's good performance is reflected by a 12.0% increase in net profit to HK\$20.0 million in FY2004 on the back of a 3.9% increase in turnover to HK\$152.1 million, which in turn boosted earnings per share by 12.7% to 8.9 HK cents (based on pre-Invitation number of shares

of 225,560,000) for FY2004. The increase in net profits was due to the rise in gross profit of HK\$4.3 million from the sale of more profitable new products, an increase in other revenue of HK\$1.2 million mainly due to increase in management fee income received from related companies and a decline in design and development costs written off by HK\$2.1 million due to more stringent controls put in place by the Group.

North America and Asia continue to be the key markets for the Group. For FY2004, North America accounted for 52.7% of the Group's annual turnover, Asia contributed to 29.2% and the rest of the world accounting for the remainder. Going forward, North America will continue to contribute significantly to the Group's turnover and profit, as it is the largest consumer market in the world. However, we will also be aggressively opening new marketing and distribution channels in Asia, especially in the fast growing PRC market.

### Strategy and Achievements

Our strategy is to remain committed in and focused on the Sports and Leisure market. This is in line with current social trends towards a more active and healthier lifestyle. As such, the strong demand for our Marine products due to the introduction of new models of Portable Fish Finder products and the success of our Sports and Leisure products, such as the enhanced model of our seascooter series, (SEA-DOO® SEASCOOTER™ GTX and



VS Supercharged, which is exclusively offered to the PADI (Professional Association of Dive Instructors) certified divers and SEA-DOO® SEASCOOTER™ DOLPHIN, which is targeted for the swimming pool market) were the key drivers behind our strong performance.

In April 2004, we signed a joint promotion agreement with PADI, the largest diving organization worldwide, to jointly promote our new model of professional sea scooter. We concluded sales agreements with Toys R'US and Radio Shack in the USA in March 2004 to enable our Group to sell our products in all of their stores in the USA and throughout the rest of the world. We have also concluded sales agreements with the Canadian Tire (one of the largest retailers in Canada) in March 2004.

We also won awards for our product designs in the last financial year. Our Pin Clock won both the overall Consumer Product Design in the Hong Kong SAR award and the Hong Kong Watch & Clock Fair "Champion" award for the same product at the 20th Hong Kong Watch & Clock Design Competition. In March 2004, the International Forum Design awarded us with the iF Design award for 2004 in respect of our "Dual Power Eternal Light – The Ultimate Flashlight" product. These awards are not only testimony to our design capabilities but spur us on to develop newer and more exciting products.

### Future Outlook

We are optimistic of our prospects for the year ahead as we have numerous exciting products in the pipeline for all of our product segments, which will be rolled out steadily over the course of the new financial year. We anticipate that the demand for the PADI SEASCOOTER™ VS Supercharge, which was launched in North America this year exclusively for PADI accredited members, will be one of the growth drivers for the Group. The PADI promotion and marketing program marks the Group's first foray into direct-marketing and the feedback so far has been favourable. We will adopt this business model for Europe and Asia Pacific in the near future, whilst further strengthening and developing our own sales and distribution network in the United States and Europe.

As part of the Group's overall corporate strategy to identify new areas for growth, the Group has signed an agreement with Peking University to assist in the development of a series of innovative learning aids for the PRC market. The management is confident that this strategic partnership with the renowned Peking University will aid the Group to develop its first product to penetrate the PRC consumer market.

Our mission is to design, develop and market innovative and revolutionary products in response

to evolving market demands. Understanding our customers and bearing in mind the shifts in lifestyle trends, we are conscious of a growing need to satisfy an increasing number of people who embrace active lifestyles, appreciate new technologies and are health conscious. We will be developing products that will be targeted towards this group. Here at Daka, we not only bring our ideas to life but are also dedicated to ensure that every product designed and developed by us fully addresses the needs of our customers.

### Appreciation

Our performance and IPO this year has been driven by the dedication and commitment of everyone who has contributed to Daka's success over the years. I would like to express my appreciation to the Board of Directors, management and staff for their time and effort in delivering another year of solid performance. Finally, I would like to extend my sincere thanks to all business partners, clients and investors for their unwavering trust and support, especially for making our IPO a success.

Your trust, confidence and encouragement will continue to drive us in this pursuit of bringing ideas to life and delivering value to all our stakeholders.

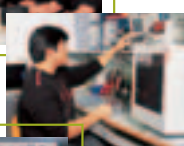
### Mr. Pat Mah

Executive Chairman

July 26, 2004



# operational review



## Revenue

Turnover for the Proforma Group ("Group") increased from HK\$146.4 million in FY2003 to HK\$152.1 million in FY2004, an increase of HK\$5.7 million or 3.9%. This was mainly driven by the fastest growing Marine Products segment.

In terms of profit after tax, the Group's profits increased from HK\$17.9 million to HK\$20.0 million, an increase of HK\$2.1 million or 12.0%. The increase in profit was due to the rise in gross profit of HK\$4.3 million from the sale of more profitable new products, an increase in other revenue of HK\$1.2 million mainly due to increase in management fee income received from related companies and a decline in design and development costs written off by HK\$2.1 million due to more stringent cost controls put in place by the Group.

## Product Sales

### *LifeStyle Products segment*

Sales in LifeStyle Products segment decreased slightly from HK\$115.9 million in FY2003 to HK\$115.3 million in FY2004, a slight decrease of HK\$0.6 million or 0.5%. This marginal decline in sales was mainly due to changes in product mix. During FY2004, a few new LifeStyle Products were introduced, e.g. mosquito control products (Ecotrap and Mosquitovac), enhanced models of flashlight products and the pin clock. These new products generated approximately HK\$28.2 million sales in FY2004 and superseded the sale of older products such as pest control devices and the projection clock, which reflected a decrease of

approximately HK\$21.6 million in sales. Notably, gross profits for the LifeStyle Products segment increased by HK\$1.3 million or 3.5%, from HK\$38.1 million in FY2003 to HK\$39.5 million in FY2004. The market introduction of higher profit margin products contributed to this increase.

### *Sports and Leisure Products segment*

Sales in the Sports and Leisure Products segment increased from HK\$24.8 million in FY2003 to HK\$25.5 million in FY2004, an increase of HK\$0.7 million or 2.9%. The increase is the result of the increase in sales of enhanced models of sea-scooter products, notably the SEADOO® SEASCOOTER™ GTX and the introduction of the new SEADOO® SEASCOOTER™ DOLPHIN model targeted for the swimming pool market.

### *Marine Products segment*

Sales in the Marine Products segment also increased from HK\$5.7 million in FY2003 to HK\$11.3 million in FY2004, an increase of HK\$5.6 million or 97.9%. The introduction of new models of Portable Fish Finder products during the period generated higher profits, leading to an increase in the overall gross profit.

## Expenses

Selling and distribution expenses increased by 19.0% from the previous year of approximately HK\$1.3 million to HK\$8.3 million due to increase in bad debts written off from HK\$Nil in FY2003 to HK\$1.3 million in FY2004.

The bad debt had to be written off for outstanding amounts due from Lentek International Inc. which had been subjected to a joint liquidation plan.

Administrative and other operating expenses rose 9.2% to HK\$27.3 million in FY2004 from 25.0 million in FY2003. This is mainly due to increases in salaries and allowances as a result of an increase in headcount.

Bank interest expense increased by HK\$0.5 million to HK\$2.0 million in FY2004 from HK\$1.5 million in FY2003. This was in line with the increase in short term bank loans.

#### **Taxation**

The effective tax rate of the Group for FY2004 was 12.5% compared with 18.2% in FY2003.

#### **Balance Sheet**

The Group's non-current assets decreased from HK\$37.1 million in FY2003 to HK\$31.4 million in FY2004, a decrease of HK\$5.7 million. It is mainly due to the decrease in value of available-for-sale investments.

Since 1 August 2003, we changed our focus to the design and development of products and terminated our subcontracting agreement and purchased our finished goods directly from our suppliers. Prior to 1 August 2003, we only outsourced the manufacturing of products to our subcontractors. We still sourced for raw materials for our manufacturing needs. As a

result, there was a sharp decrease in inventory from HK\$16.4 million as at 31 March 2003 to HK\$1.4 million as at 31 March 2004. Similarly, there was also a decrease in accounts payable from HK\$13.3 million as at 31 March 2003 to HK\$0.5 million as at 31 March 2004.

As at 31 March 2004, our Group had approximately HK\$19.4 million (current asset) due from Daka Manufacturing Limited ("DML") and HK\$11.2 million (current asset) due from Daka Industrial Limited ("DIL"). These consist mainly of a loan to DML and DIL (the "DIL Group") for the purchase of production and testing equipment, payment on behalf for the purchase of raw materials for the manufacture of products for our Group and advances for working capital purposes. These financial supports were extended to the DIL Group to assist in their operations until the DIL Group is able to operate independently.

In an effort to protect the Group, the loan to DIL (which amounted to approximately HK\$9.2 million as at 31 March 2004) included in the amount due from DIL is to be repaid by 12 monthly instalments of HK\$765,250 each commencing in March 2004. The first five instalments have already been repaid as scheduled.

The amount due from DML would net off the cost of finished goods purchased by us from DML. The directors of the Company are of the

view that the amount due from DML would be fully settled in July 2005. And the Group will cease all forms of financial support to the DIL Group as at 31 July 2005.

In addition, the loan and other financial support provided by the Group to the DIL Group are secured by a first charge over the shares in DML held by DIL and a personal guarantee provided by Mr. Lawrence Chan, the major shareholder of the DIL Group as a secondary obligation.

#### **Risk Management**

The Board does not have a risk management committee. However, the management regularly reviews the Group's business and operational activities to identify areas of significant business risk as well as appropriate measures to control and mitigate these risks. Any significant matters detected are reported to the directors and the Audit Committee.

#### **Employees**

As at 31 March 2004, the total number of employees of the Group was 152 (2003: 102) with total staff costs (excluding directors' remuneration) amounting to HK\$13.5 million (2003: HK\$11.1 million). The remuneration of the Group includes salaries, bonuses and other fringe benefits.



## board of directors

### **Pat Mah** Executive Chairman

Pat Mah is the founder and currently the Executive Chairman of our Group. He was appointed to the board of directors of our Company on 19 May 2004. Mr. Mah is responsible for the overall strategic planning of our Group. Mr. Mah has over 10 years of experience in the IT industry having commenced his career in 1979 when he worked closely with the Government of Alberta, Canada where he was responsible for the Canadian Government's management information system. Mr. Mah subsequently went into full-time business in 1989 when he established a direct-marketing company called Direct Innovation Limited in Hong Kong SAR for the purpose of marketing innovative products via mail order. Later Mr. Mah established the Horizon Marketing Group, a subsidiary marketing company in the United States trading in automotive related products. Mr. Mah graduated with a Bachelor of Science degree from the University of Alberta, Canada where he majored in Computer Science.

### **Raymond Chow** Chief Executive Officer

Raymond Chow is the Chief Executive Officer of our Group having joined the board of directors of Daka Development in 1996. He was appointed to the board of directors of our Company on 19 May 2004. Mr. Chow has more than 20 years' experience in accounting and finance, having worked in many senior financial positions in various large local companies. Prior to joining our Group, from 1995 to 1996, Mr. Chow was the General Manager of Accounting and Finance with Kumagai Gumi (Hong Kong ) Ltd Hong Kong (now renamed Hong Kong Construction Limited), which is a publicly listed company engaged in the business of construction and property development in Hong Kong SAR and the PRC. Mr. Chow was Head of Finance and later General Manager of Corporate Development of another publicly listed company, Café de Coral Holdings Ltd. Hong Kong SAR, which is a food management company from 1991 to 1994. He has also worked as a consultant in a family business venture engaged primarily in marketing J'eslin International Limited, Hong Kong SAR, from 1990 to 1991. From 1988 to 1990 he was a Vice President of Finance and Administration of Freedom Concepts International Limited an international conglomerate engaged in manufacturing, distributing and marketing. He has also held several auditing positions. From 1987 to 1988 he was an Assistant Manager of Coopers & Lybrand Chartered Accounts. From 1983 to 1987 he was an audit manager at the Department of Energy & natural Resources, Alberta Government Canada. From 1982 to 1983 he was a Computer Auditor Supervisor at Ernst & Whinney Chartered Accountants. Before that from 1979 to 1982 he was an accountant at Coopers & Lybrand Chartered Accountants Canada. From 1978 to 1979 he was an article student at C.E. Maimann Chartered Accountants, Canada. Mr. Chow is a Certified Chartered Accountant of the Institute of Chartered Accountants of Alberta, Canada. In addition, he holds a Bachelor of Commerce from the University of Alberta, Canada.

### **Rose Chow** Executive Director

Rose Chow, is an Executive Director of the Company, and was appointed to the board of directors of Daka Development in 1997. She was appointed to the board of directors of our Company on 19 May 2004. Ms. Chow is responsible for initiating and handling all major projects of the Group such as our enterprise resources planning system. She also oversees the overall running of the Hong Kong SAR corporate office, as well as, human resource policies and procedures of the Group. Before embarking on a career in business, Ms. Chow gained experience as a Medical Laboratory Technologist in Canada for more than 10 years. Prior to joining our Group, Ms. Chow held management positions in other companies in Hong Kong SAR where she gained 7 years of experience. From 1990 to 1995, Ms Chow was General Manager of Carryington Investment Limited managing direct marketing business. Ms Chow then joined Yue Hing Land Investment Limited as Manager managing tenancy lease and property development of the group till 1997.



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**Sir Clive Sinclair**  
Non-Executive Director

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Sir Clive Sinclair is a Non-Executive Director of our Company and was appointed a non-executive director of Daka Development in March 2000. He was appointed to the board of directors of our Company on 19 May 2004. Sir Clive assists our Group in the strategic management and development of our Group and our products. Sir Clive is an electronics engineer, inventor, and entrepreneur. In 1983 Sir Clive received a knighthood for his achievements having invented many novel products for the mass consumer market. These inventions include the first widely available pocket calculator, digital watches, pocket and wristwatch television sets, and a series of home computers. Sir Clive formed Sinclair Research Ltd in 1972 as a vehicle for many of his projects.

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**Michael Chan**  
Non-Executive Director

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Michael Chan is a Non-Executive Director of our Company and was appointed a non-executive director of Daka Development in April 2000. He was appointed to the board of directors of our Company on 19 May 2004. Mr. Chan is the executive chairman of Café de Coral Holdings Limited, a public company listed in Hong Kong SAR which is also the largest Chinese fast food chain around the world. He has been working in Café de Coral Holdings Limited for about 20 years from 1984, with the last 15 years in chief executive positions. Prior to joining Café de Coral Holdings Limited, he served as city planner in Canada from 1978 to 1982 and later a town planner in the Hong Kong SAR Government from 1982 to 1984. Mr Michael Chan has been awarded the Directors of the Year

Awards in 2003 by the Hong Kong Institute of Directors, the Bauhinia Cup Outstanding Entrepreneur Award in 2002 by the Hong Kong Polytechnic University, the Hong Kong Business Awards-Executive of the Year Award in 2001 by DHL/South China Morning Post and the Stars of Asia award in 1999 by BusinessWeek.

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**William Chin Shing Tong**  
Independent Director

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William Chin Shing Tong is an Independent Director of our Company and was appointed an independent director of Daka Development in 1996. He was appointed to the board of directors of our Company on 19 May 2004. Mr. Tong has over 24 years of experience in general corporate development, accounting, financing, auditing and business administration, having worked in senior positions in various companies in both Hong Kong SAR and Canada. Mr. Tong holds a Bachelor of Commerce degree and is a member of the Society of Certified Management Accountants of Canada.

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**Dr. Lim Chun Leng, Michael**  
Independent Director

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Dr. Lim Chun Leng, Michael is an Independent Director of our Company having joined our board on 19 May 2004. Dr. Lim is a medical doctor and a Member of Parliament in Singapore and has served on several government committees. He has more than a decade of corporate experience and has been a board member of several public and private companies including NTUC Income Insurance Co-operative Ltd, United Engineers Limited, United Medicorp Pte Ltd, Reed Group Holdings Ltd, NTI International Limited, NTUC Childcare Cooperative and Citiraya.

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**Roy Chi Ping Chung**  
Independent Director

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Roy Chi Ping Chung is an Independent Director of our Company having joined our board on 19 May 2004. He is a co-founder and Managing Director of TTI since 1985 where he is responsible for corporate and business management of the Group. He is the Deputy Chairman of Hong Kong Polytechnic University. He is a member of the Advisory Board for the faculty of Business of Lingnan University. He is the Vice-Chairman of Federation of Hong Kong Industries & Chairman of Group "Electrical & Optical Products" of the Federation of Hong Kong Industries. He is also the Vice-President of Hong Kong Young Industrialists Council. He is the Director of the Hong Kong Paediatric Foundation of Hong Kong Society and the Director of the Hong Kong Safety Institute Ltd. He is an Independent Non-Executive Director of Kin Yat Holdings Limited. He holds a Master of Science Degree in Engineering Business Management from the University of Warwick UK.

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**David Chia Tian Bin**  
Independent Director

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David Chia Tian Bin is an Independent Director of our Company having joined our board on 19 May 2004. He is currently an executive director of ASC Group where he has been responsible for private equity and venture capital investment advisory services in Asia since 1990. From 1980 to 1990, he was responsible for financial audit and consulting services with an international accounting firm. He holds a Bachelor of Accountancy (Honours) from the National University of Singapore. He is also a member of the Institute of Certified Public Accountants of Singapore.

## Key executives

**Felix Yick Pan Chan** is our Chief Operating Officer. Mr. Chan has over 23 years of management, marketing and sales experience in both consumer and commercial products. Prior to joining our Group in 2003, Mr. Chan was from 1995 the president of Phonetracker Systems Inc, a company engaged in telephone directory media advertising. From 1990 to 1995, he was first an executive vice president, then the president of Advance Concepts International Ltd. From 1986 to 1990 he was the vice president of Appealing Appliances Ltd & Alcove Manufacturing Ltd. Before that Mr Chan was first the Product manager then the Director of Marketing of Sunbeam Canada Corporation from 1983 to 1986. From 1981 to 1983 he was the Assistant Product manager for Energizer/Eveready Division, Union Carbide Canada Ltd. He was the Marketing Coordinator of Amway (HK) Ltd from 1979 to 1980. Mr Chan graduated with a Bachelor of Arts Degree from the University of Toronto, Canada, as well as a Bachelor of Commerce (Honours) Degree from the University of Windsor, Canada. In addition, he holds a Master of Business Administration from the University of Windsor where he majored in marketing.

**Frankie Chin Man Chan** is our Director of Engineering. Mr. Chan has over 16 years experience in the manufacturing industry. He has wide ranging experience in working in large and small organisations and various product sectors from product development to manufacturing. Mr. Chan joined Daka Development in 2000 and currently heads the Engineering Department responsible for product development. Before joining us Mr Chan was an operations manager at T & K Industrial Ltd. Before that he was an operations manager at Dataasia Ltd from 1995 to 1997. He was a senior mechanical engineer and an operations manager at Artbo Electronic Ltd from 1988 to 1995. From 1988 to 1989 he was a mechanical engineer at Applied Electronics Ltd. From 1987 to 1988 he was a mechanical engineer at Wong's Electronics Co Ltd. In 1987 he was a system manufacturing engineer at National Semiconductor HK Ltd. Mr. Chan holds a Bachelor of Engineering degree.

**Samuel Ribet** is our Director of Product Development. Mr. Ribet has over 18 years experience in product design and development in Italy and Hong Kong SAR and is the winner of various design awards including IF Design Award, Germany and Premio Smau, Italy. He is a visiting lecturer at the Hong Kong Polytechnic University. Mr. Ribet holds a Bachelor of Arts (Hons) in Industrial Design. Before joining us in 2002, Mr Ribet was a marketing director at Sunhing Millennium Ltd from 1997 to 2002. From 1995 to 1997 he was a senior designer at Zoo Design Ltd. Before that from 1989 to 1994 he was a senior designer at ISAO Hosoe Design Italy.

**Kevin Kwok Wah Leung** is our Financial Controller. Mr. Leung is a qualified accountant with more than 17 years' audit and business advisory services experience in both public practice and commercial organizations. Mr. Leung's experience includes public listings in Hong Kong SAR and NASDAQ, financial due diligence and internal and external audit work. Before joining us he was an audit manager at RSM Nelson Wheeler from 2001 till 2003. From 1995 to 2001 he was a senior audit manager at Pricewaterhouse Coopers. From 1994 to 1991 he was an Audit senior at Chang Leung Hui & Li. From 1986 to 1989 he was a financial analyst and internal auditor at Comitex Holdings Ltd. He obtained a Master of Business Administration from Western Ontario University and is a Fellow Member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants and is a member of Hong Kong Securities Institute.

**Alexander Joshef Kalogroulis** is the Managing Director of Daka Research (UK) Ltd. He joined our Group in 2002. From 1995 to 2003, he was the Consultant Chief Engineer for Sinclair Research. From 1990 to 2003, he was concurrently the principal at Kalogroulis Design. Mr. Kalogroulis obtained a degree in Mechanical Engineering from Imperial College, London and a Masters Degree in Industrial Design Engineering from the Royal College of Art, London.

**Ming Yiu Wong** is our Director of Strategic Product Planning. He has over 24 years' experience in the electronics industry, with over 18 years at managerial level. He has been working in the research and development departments for major listed companies, and has in-depth knowledge of engineering skills and technologies in electronic products development. Before joining us Mr Wong was self employed from 1997 to 2000. He was an engineering Manager at Capital Prospect Ltd in 1996. From 1994 to 1995 he was an engineering manager at Ansen Electronic Co. He was an engineering manager at Electro Power Ltd in 1994. In 1993 he was an engineering manager at Advanced Digital Ind Ltd. He was an electronic engineering manager at Hasbro Bradley F.E. Ltd. He was an engineering manager at Juko Laboratories Ltd from 1989 to 1992. He was an engineering manager at applied Elect (OEM) Ltd from 1988 to 1989. Before that from 1987 to 1988 he was the Assistant Engineering Manager at Wong's Electronic Ltd. He was a Deputy Engineering Manager at Far East United Elect Ltd from 1986 to 1987. From 1981 to 1983, he was a digital Application Engineer at National Semiconductor. Mr. Wong graduated from Hong Kong Polytechnic with a Higher Diploma in Electronic Engineering.

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# CORPORATE GOVERNANCE REPORT

The Board of Directors of Daka Designs Limited (the “Company”) recognises the importance of corporate governance in ensuring greater transparency, protecting the interests of its shareholders as well as strengthening investors’ confidence in its management and financial reporting and is committed to maintaining a high standard of corporate governance within the Group.

The SGX-ST’s Listing Manual requirement requires that an issuer who holds its Annual General Meeting (“AGM”) on or after 1 January 2003 (the “effective date”) should describe its corporate governance practices with specific reference to the Code of Corporate Governance (“Code”) in its annual report.

Our Company was only formed on 5 March 2004 and our Board of Directors were appointed on 19 May 2004. As such this statement outlines the corporate governance practices that were in place from 19 May 2004.

## **Board Matters**

### **Principle 1 of the Code: Board’s Conduct of its Affairs**

The Board of Directors (the “Board”) holds meetings on a regular basis throughout the year to approve the Group’s key strategic plans as well as major investments, disposals and funding decisions. The Board is also responsible for the overall corporate governance of the Group.

The Company was listed on the main board of SGX-ST on 16 July 2004. The Board will conduct regular scheduled meetings on a quarterly basis. When circumstances require, ad-hoc meetings are arranged. Board meetings are conducted in Hong Kong and attendance by Directors are regular. The attendance of the Directors at meetings of the Board and Board committees, as well as the frequency of such meetings, is as follows:-

#### **Attendance at Meetings**

Note: Our Company was only formed on 5 March 2004. Our Directors were appointed on 19 May 2004. Our first board meeting was held on 19 May 2004.

Note: The Audit, Remuneration and Nominating Committee were formed on 19 May 2004. No Committee meetings have been held by Remuneration and Nominating Committee. Audit Committee has conducted a meeting on 23 July 2004 to review the announcement of the full year proforma results ended 31 March 2004.

All Directors are update regularly concerning any changes in company policies. The Company also provides ongoing education on Board processes, governance and best practices.

Newly appointed Directors will be briefed by Management on the business activities of the Group and its strategic directions. They are also provided with relevant information on the Company’s policies and procedures.

# CORPORATE GOVERNANCE REPORT

## **Principle 2: Board Composition and Balance**

The Board comprises three Executive Directors, two Non-Executive Directors and four Independent Non-Executive Directors. Key information regarding the Directors is given in the "Corporate Information" section of this annual report. The independence of each Director will be reviewed annually by the Nominating Committee ("NC"). The NC is of the view that the current Board, with Independent Non-Executive Directors making up at least one-third of the Board, has a strong and independent element that is able to exercise objective judgement on corporate affairs independently from the management. The NC is also of the view that no individual or small group of individual dominates the Board's decision making process.

The Board is of the view that the current board size of nine Directors is appropriate, taking into account the nature and scope of the Company's operations.

The Board considers that its composition of Independent Non-Executive Directors provide an effective board with a mix of knowledge, business contacts and successful business and commercial experience. This balance is important in ensuring that the strategies proposed by the executive management are fully discussed and examined, taking into account the long term interests of the Group.

## **Principle 3: Role of Chairman and Chief Executive Officer**

Mr Pat Y. Mah is our Executive Chairman. He will usually be appointed as the Chairman for our board meetings and as the Chairman exercises control over quality, quantity and timeliness of the flow of information between management and the Board.

Our Chief Executive Officer is Mr Raymond Yiu Man Chow. He together with our Executive Chairman, Mr Pat Y. Mah has full executive responsibilities of the overall business directions and operational decisions of our Group.

All major decisions made by our Executive Chairman and Chief Executive Officer are reviewed by the Audit Committee. Our Executive Chairman's and Chief Executive Officer's performance and appointment to the Board will be reviewed annually by the NC and his remuneration package will be reviewed annually by the Remuneration Committee ("RC").

## **Principle 4: Board Membership**

We believe that Board renewal must be an ongoing process, to both ensure good governance, and maintain relevance to the changing needs of the Company and business. Our Bye-Laws require at least one-third of our Directors (excluding the Managing Director) to retire and subject themselves to re-election by shareholders at every AGM. In other words, no Director stays in office for more than three years without being re-elected by shareholders.

Mr William Chin Shing Tong, an Independent Non-Executive Director, is the Chairman of the NC. The NC also comprises one Independent Director, with Dr Michael Lim and one Executive Director, Mr Pat Y. Mah.

The responsibilities of the NC are to determine the criteria for identifying candidates and reviewing nominations for the appointment of directors to the Board and also to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval.

# CORPORATE GOVERNANCE REPORT

## **Principle 5: Board of Performance**

The NC will use its best efforts to ensure that Directors appointed to our Board possess the relevant necessary background, experience and knowledge and that each Director brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

A formal review of the Board's performance will be endeavoured to be undertaken collectively and individually by the Board annually and informally by the NC with inputs from the other Board members and the Chief Executive Officer.

## **Principle 6: Access to Information**

In order to ensure that the Board is able to discharge its responsibilities, the management is required to provide adequate and timely information to the Board on Board affairs and issues that require the Board's decision as well as ongoing reports relating to operational and financial performance of the Company.

The Board has separate and independent access to the senior management and the Company Secretary at all times. Should Directors, whether as a group or individually, need independent professional advice, the Company Secretary will, upon directions by the Board, appoint a professional advisor selected by the Group or the individual to render the advice. The cost of such professional advice will be borne by the Company.

Remuneration Matters

## **Principle 7: Procedures for Developing Remuneration Policies**

## **Principle 8: Level and Mix of Remuneration**

## **Principle 9: Disclosure on Remuneration**

The function of the RC is to review the remuneration of the Executive Directors of the Company and to provide a greater degree of objectivity and transparency in the setting of remuneration.

Mr Michael Chan, a Non-Executive Director is the Chairman of the RC. The RC also comprises one Independent Director, Mr William Chin Shing Tong and one Executive Director Mr Raymond Chow.

The RC will review and recommend to the Board, in consultation with management, a framework of all aspects of remuneration. The RC also determines the specific remuneration packages and terms of employment for each of the Executive Directors of the Company including those employees related to the Executive Directors and controlling shareholders of the Company as well as the senior executives.

The Daka Employee Share Option Scheme ("Scheme") was approved by our shareholders on 19 May 2004. The Scheme is administered by the RC.

Details of the Scheme can be obtained from our Prospectus dated 2 July 2004.

The RC has access to expert professional advice on human resource matters whenever there is a need to consult externally. In its deliberations, the RC takes into consideration industry practices and norms in compensation in addition to the Company's relative performance and the performance of the individual Directors. No Director will be involved in deciding his own remuneration.

# CORPORATE GOVERNANCE REPORT

The performance-related elements of remuneration should form a significant proportion of the total remuneration package of the Executive Director. The remuneration of Non-Executive Directors should be determined by his contribution to the Company, taking into account factors such as efforts and time spent as well as his responsibilities on the Board. The Board will recommend the remuneration of the Non-Executive Directors for approval at the AGM.

## Directors' Remuneration

Our Executive Directors' remuneration consists of their salary, allowances, bonuses, and profit sharing awards conditional upon their meeting certain profit before tax targets. The details of their remuneration package are given below.

Our Independent Non-Executive Directors have remuneration packages which consist of a Directors' fee component. The Directors' fees are based on a scale of fees divided into basic retainer fees as a Director and additional fees for serving on Board committees as the Chairman of the Committee. Directors' fees for Independent Non-Executive Directors are subject to the approval of shareholders at the AGM.

For the financial years ended 31 March 2003 and 2004, the compensation paid to our Directors and Executive Officers for services rendered to our Proforma Group on an individual basis and in remuneration bands is as follows:-

Directors in each remuneration band <sup>(2)</sup>

Directors	FY2003	FY2004
Pat Y. Mah	A	A
Raymond Yiu Man Chow	A	A
Rose Chow	A	A
Sir Clive Sinclair	A	A
Michael Chan	A	A
William Chin Shing Tong	A	A
Roy Chi Ping Chung	— <sup>(3)</sup>	— <sup>(3)</sup>
Dr Michael Lim Chun Leng	— <sup>(3)</sup>	— <sup>(3)</sup>
David Chia Tian Bin	— <sup>(3)</sup>	— <sup>(3)</sup>

Key Executive Officers in each remuneration band <sup>(2)</sup>

Executive Officers	FY2003	FY2004
Frankie Chin Man Chan	A	A
Samuel Ribet	A	A
Kevin Kwok Wah Leung	—	A
Alexander Joshef Kalogroulis	—	A
Ming Yiu Wong	A	A
Felix Yick Pan Chan	—	A



# CORPORATE GOVERNANCE REPORT

## Notes:-

1. Remuneration includes up to S\$250,000.
2. Remuneration bands:-
  - "A" refers to remuneration up to S\$250,000
  - "B" refers to remuneration from S\$250,001 to S\$500,000
  - "C" refers to remuneration from S\$500,001 to S\$750,000
3. Directors were not under our appointment for the relevant period.

Number of Directors in each Band

	FY2003	FY2004
S\$500,000 and above	–	–
S\$250,000 to below S\$500,000	–	–
Below S\$250,000	6	6
Total	6	6

## Accountability and Audit

### Principle 10: Accountability

The Board believes that it should promote best practices as a means to build an excellent business for our shareholders as they are accountable to shareholders for the Company and the Group's performance.

The Board is mindful of its obligations to provide timely and fair disclosure of material information in compliance with statutory reporting requirements. Price sensitive information is first publicly released, either before the Company meets with any group of investors or analysts or simultaneously with such meetings. Financial results and annual reports will be announced or issued within the mandatory period.

### Principle 11: Audit Committee

Mr William Chin Shing Tong, an Independent Director, is the Chairman of the Audit Committee ("AC"). The AC comprises three Independent Directors, Mr William Chin Shing Tong, Mr Michael Chan and Mr David Chia Tian Bin. At least two members of the AC have the appropriate accounting or related financial management expertise of experience.

The AC will hold periodic meetings and review primarily the following, where relevant, with the Executive Directors and external auditors:-

- (a) the audit plan of our Company's external auditors;
- (b) the external auditors' reports;
- (c) the co-operation given by our officers to the external auditors;
- (d) the scope and results of the internal audit procedures;
- (e) the financial statements of our Company and our Group before their submission to our Board;

# CORPORATE GOVERNANCE REPORT

- (f) nominate external auditors for appointment;
- (g) our Group's compliance with such functions and duties as may be required under the relevant statutes or the Listing Manual, and by such amendments made thereto from time to time;
- (h) interested person transactions; and
- (i) the remuneration packages of employees who are related to our Directors and/or substantial shareholders.

In addition to the above, the AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on our Group's operating results and/or financial position. Each member of the AC shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the AC in respect of matters in which he is interested.

## **Principle 12: Internal Controls**

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Directors regularly review the effectiveness of all internal controls, including operational controls.

## **Principle 13: Internal Audits**

The Company presently has no separate internal audit function and the AC will be reviewing the need to establish such a function in the course of the current financial year.

## **Communication with Shareholders**

### **Principle 14: Communication with Shareholders**

### **Principle 15: Greater Shareholder Participation**

We believe in regular and timely communication with shareholders as part of our organisation development to build systems and procedures that will enable us to operate globally.

The Company does not practise selective disclosure. In line with continuous obligations of the Company pursuant to the SGX-ST Listing Manual, the Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Company or the Group.

We support the Code's principle to encourage shareholder participation. Shareholders are encouraged to attend the AGM to ensure a high level of accountability and to stay informed of the Company's strategy and goals. Notice of the AGM is despatched to shareholders, together with explanatory notes or a circular on items of special business (if necessary), at least 21 working days before the meeting. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the AGM. The Chairman of the Audit, Remuneration and Nominating Committees are normally available at the meeting to answer those questions relating to the work of these committees.

# CORPORATE GOVERNANCE REPORT

## **Dealing in Securities**

The Company has adopted internal codes pursuant to the SGX-ST Best Practices Guide applicable to all its officers in relation to dealings in the Company's securities. Its officers are not allowed to deal in the Company's shares during the period commencing one month before the announcement of the Company's quarterly, half-yearly and full year results and ending on the date of the announcement of the results.

Directors and executives are also expected to observe insider trading laws at all times even when dealing with securities within permitted trading period.

## **Best Practices Guide**

The Company has complied materially with the Best Practices Guide issued by SGX-ST.

# OTHER INFORMATION

## **Material Contracts**

Save as disclosed under Material Contracts in the Company's prospectus dated 2 July 2004 and the service agreements between the Executive Directors and the Company, there are no material contracts entered into by the Company or its subsidiaries for the benefit of the Director or controlling shareholders subsisting at the end of the financial year ended 31 March 2004.

## **Interested Person Transactions**

Save as disclosed under Interested Person Transactions in the Company's prospectus dated 2 July 2004, there are no interested person transactions between the Company or its subsidiaries and any of its interested persons subsisting at the end of the financial year ended 31 March 2004.

# DIRECTORS' REPORT

The Directors are pleased to present their annual report to the members together with the audited financial statements of the Company for the financial period from 5 March 2004 (the date of incorporation) to 31 March 2004.

## DIRECTORS

The Directors of the Company in office at the date of this report are as follows:

### Executive Directors:

Pat Y. Mah	(Chairman)	(appointed on 19 May 2004)
Raymond Yiu Man Chow	(Chief Executive Officer)	(appointed on 19 May 2004)
Rose Chow		(appointed on 19 May 2004)

### Non-Executive Directors:

Sir Clive Marles Sinclair	(appointed on 19 May 2004)
Michael Yue Kwong Chan	(appointed on 19 May 2004)

### Independent Non-Executive Directors:

William Chin Shing Tong	(appointed on 19 May 2004)
Dr. Michael Lim Chun Leng	(appointed on 19 May 2004)
Roy Chi Ping Chung	(appointed on 19 May 2004)
David Chia Tian Bin	(appointed on 19 May 2004)

## ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During or at the end of the financial period, the Company was not a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTEREST IN SHARES OR DEBENTURES

According to the register of Directors' shareholdings, none of the Directors holding office at the end of the financial period had any interest in the share capital of the Company and related corporation, except as follows:

<u>The Company</u> (Ordinary shares of HK\$0.15 each)	<u>At 19 May 2004 or date of appointment</u>			
	Direct interest Shares	Number of %	Deemed interest Shares	Number of %
<b>Directors</b>				
Pat Mah <sup>(1)</sup>	—	—	97,341,716	32.17
Raymond Chow <sup>(2) (3)</sup>	—	—	97,341,716	32.17
Rose Chow <sup>(2) (4)</sup>	—	—	97,341,716	32.17
Michael Chan <sup>(5)</sup>	—	—	11,503,560	3.80
Sir Clive Sinclair <sup>(6)</sup>	—	—	6,766,800	2.24
William Chin Shing Tong	—	—	—	—
Dr Michael Lim Chun Leng	—	—	—	—
Roy Chi Ping Chung	—	—	—	—
David Chia Tian Bin	—	—	—	—



# DIRECTORS' REPORT

Notes:-

- (1) Chariot Technology Limited is a British Virgin Islands limited liability corporation incorporated on 8 December 2003. The sole shareholder of Chariot Technology Limited is our Executive Chairman, Pat Mah.
- (2) Our Chief Executive Officer, Raymond Chow is married to our Executive Director Rose Chow and they are deemed to have an interest in each other's shares.
- (3) New Wharton International Limited is a British Virgin Islands limited liability corporation incorporated on 12 December 2003. The sole shareholder of New Wharton International Limited is our Chief Executive Officer, Raymond Chow.
- (4) Microage Investments Limited is a British Virgin Islands limited liability corporation incorporated on 8 December 2003. The sole shareholder of Microage Investments Limited is our Executive Director Rose Chow.
- (5) Green Global Limited is a company incorporated in Hong Kong SAR and is directly controlled by our Non-Executive Director Michael Chan has a deemed interest in 100.0% of the shares.
- (6) A director and controlling shareholder of Sinclair Research Limited is Sir Clive Sinclair who owns approximately 60.8% (including deemed interest) of Sinclair Research Limited and is a Non-Executive Director of our Company.

## **DIRECTORS' CONTRACTUAL BENEFITS**

Save as disclosed under Interested Person Transactions in the Company's prospectus dated 2 July 2004 and the service agreements between Executive Directors and the Company, no director has received or has become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member or with a company in which the director has a substantial financial interest.

## **SHARE OPTIONS**

During the financial period, there were:

- (i) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and
- (ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial period, there were no unissued shares of the Company or its subsidiaries under option.

## **AUDIT COMMITTEE**

The members of the Audit Committee, two of them are Independent Non-Executive Directors, during the financial period from 19 May 2004 and up to the date of the report are as follows:

William Chin Shing Tong                      (Chairman)  
Michael Yue Kwong Chan  
David Chia Tian Bin

# DIRECTORS' REPORT

The Audit Committee performs the functions specified in the Listing Manual and the Best Practice Guide of the Singapore Exchange, and the Code of Corporate Governance. The functions performed are detailed in the Report on Corporate Governance.

The Audit Committee has recommended to the Board of Directors that the auditors, Messrs. RSM Nelson Wheeler, be nominated for re-appointment as auditors of the Company at the forthcoming Annual General Meeting.

## **AUDITORS**

The auditors, Messrs. RSM Nelson Wheeler, Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Boards of Directors

**Pat Y. Mah**

Chairman

26 July 2004

**Raymond Yiu Man Chow**

Director

# STATEMENT OF DIRECTORS

In the opinion of the Directors, the accompanying financial statements of the Company and unaudited proforma consolidated financial statements of the Group set out on pages 27 to 65 are drawn up so as to show what the historical information might have been had the Proforma Group structure existed throughout the financial year / period under review, or since the respective dates of incorporation, whichever is earlier, of the companies in the Proforma Group. However, the unaudited proforma consolidated financial statements are not necessarily indicative of the results of the operations or the related effects on the financial positions that would have been attained had the Proforma Group actually existed earlier.

At the date of this statement there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

**Pat Y. Mah**

**Raymond Yiu Man Chow**

26 July 2004

# UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

## **A. Basis of preparation of the unaudited proforma consolidated financial statements**

The financial information of Daka Designs Limited (the "Company") and its subsidiaries (collectively referred to as the "Proforma Group") set out in the unaudited proforma consolidated financial statements for the financial year ended 31 March 2004 are expressed in Hong Kong dollars ("HK\$"), being the functional and reporting currency of the principal companies within the Proforma Group, and have been prepared in accordance with the historical cost convention as modified by the revaluation of available-for-sale investments and in accordance with the accounting policies of the Proforma Group set out on pages 34 to 41 in this report. There have been no changes to the accounting policies of the companies within the Proforma Group during the financial year under review.

The unaudited proforma consolidated financial statements of the Proforma Group for the financial year ended 31 March 2004 are prepared in accordance with International Financial Reporting Standards.

The unaudited proforma consolidated financial statements have been prepared on the assumption that the current Proforma Group structure has been in existence throughout the year, or since the respective dates of incorporation of the companies in the Proforma Group, whichever is earlier. Details of the Proforma Group structure is outlined in Section D on pages 27 to 28 of this report.

The unaudited proforma consolidated financial statements comprise the Proforma Group balance sheet, Proforma Group income statement, Proforma Group statement of changes in equity, Proforma Group statement of cash flows and notes to the Proforma Group financial statements.

The objective of the unaudited proforma consolidated financial statements is to show what the historical information might have been had the Proforma Group structure existed throughout the financial year under review, or since the respective dates of incorporation, whichever is earlier, of the companies in the Proforma Group. However, the unaudited proforma consolidated financial statements are not necessarily indicative of the results of the operations or the related effects on the financial positions that would have been attained had the Proforma Group actually existed earlier.

In arriving at the unaudited proforma consolidated financial statements, adjustments have been made as considered necessary in order to present the financial statements on a consistent and comparable basis as if the Proforma Group existed throughout the year, or since the respective dates of incorporation of the companies in the Proforma Group, whichever is earlier.

The unaudited proforma consolidated financial statements for the financial year under review were prepared based on the audited financial statements of the Company and the unaudited financial statements of each of the companies within the Proforma Group.

All material intra-group transactions and balances have been eliminated in the preparation of the unaudited proforma consolidated financial statements.



# UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

## B. The Company

The Company was incorporated in Bermuda on 5 March 2004 under the Bermuda Companies Act as an exempted company with limited liability. There are no founder, management or deferred shares reserved for issuance for any purpose.

On incorporation, the authorised share capital of the Company was HK\$100,000 comprising 1,000,000 ordinary shares of HK\$0.10 each. The issued capital was HK\$100,000 comprising 1,000,000 ordinary shares of HK\$0.10 each and all such shares issued were nil paid. As at the date of this report, there is only one class of shares.

Pursuant to written resolutions dated 19 May 2004, the shareholders of the Company approved, *inter alia*, the following:

- (a) an increase in its authorised share capital from HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each to HK\$900,000,000 divided into 9,000,000,000 ordinary shares of HK\$0.10 each;
- (b) the allotment and issuance of 337,340,000 new ordinary shares of HK\$0.10 each and the crediting as fully paid the 1,000,000 existing but nil paid shares of HK\$0.10 each in the Company pursuant to the restructuring exercise of the Proforma Group (the “Restructuring Exercise”);
- (c) the consolidation of 150 ordinary shares of HK\$0.10 each in the authorised and issued share capital into one ordinary share of HK\$15.00 each;
- (d) the sub-division of each ordinary share of HK\$15.00 in the authorised and issued share capital of the Company into 100 ordinary shares of HK\$0.15 each;
- (e) the issue of 77,000,000 new shares which are the subject of the invitation to the public for the subscription of the new shares (the “Invitation”) which when fully paid will rank *pari passu* in all respects with the existing shares of the Company;
- (f) the adoption by the directors of the Share Option Scheme and the allotment and the issue of new shares pursuant to the exercise of options granted under the Share Option Scheme subject to the rules of the Share Option Scheme;
- (g) the adoption of a new set of Bye-Laws of the Company;
- (h) the Restructuring Exercise, details of which are set out in the prospectus (the “Prospectus”) issued by the Company dated 2 July 2004; and

# UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

## **B. The Company (continued)**

- (i) the authorization to the directors to issue, in addition to the new shares, such further shares or convertible securities at any time to such persons, upon terms and conditions and for such purposes as the directors may in their absolute discretion deem fit (whether by way of rights, bonus or otherwise), provided that the aggregate number of shares and convertible securities to be issued pursuant to such authorization shall not exceed 50% of the issued share capital of the Company for the time being, and provided further that the aggregate number of shares and convertible securities to be issued other than on a pro-rata basis to shareholders of the Company does not exceed 20% of the issued share capital of the Company. For this purpose, the percentage of issued share capital is based on the Company's issued share capital at the time the mandate is passed, after adjusting for new shares arising from the conversion of convertible securities or employee share options on issue when the mandate is passed and any subsequent consolidation or subdivision of shares. Such a general mandate shall only remain in force until:
  - (i) the conclusion of the next annual general meeting of the Company following the passing of the resolution by the shareholders of the Company at which time it shall lapse, unless by ordinary resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or
  - (ii) the shareholders of the Company by an ordinary resolution in a general meeting revoke or vary such general mandate, whichever is the earlier.

# UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

## B. The Company (continued)

Before the Invitation, the issued and paid up share capital was HK\$33,834,000 divided into 225,560,000 ordinary shares of HK\$0.15 each.

Details of the changes in the issued and paid up capital of the Company since 5 March 2004 (date of incorporation) and immediately after the Invitation are as follows:

	Number of shares	HK\$
Credited as fully paid, the 1,000,000 ordinary shares of HK\$0.10 each that were issued nil paid upon organisation, pursuant to the Restructuring Exercise	1,000,000	100,000
Issued and fully paid ordinary shares of HK\$0.10 each pursuant to the Restructuring Exercise	337,340,000	33,734,000
Issued share capital before share consolidation	338,340,000	33,834,000
Consolidation of 150 ordinary shares of HK\$0.10 each into one ordinary share of HK\$15.00 each	2,255,600	33,834,000
Sub-division of ordinary shares of HK\$15.00 each into ordinary shares of HK\$0.15 each	225,560,000	33,834,000
New shares issued pursuant to the Invitation	77,000,000	11,550,000
Post-Invitation share capital	302,560,000	45,384,000

Save as disclosed above, there were no changes in the issued and paid up capital of the Company since incorporation.

# UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

## B. The Company (continued)

The authorised share capital and the shareholders' equity of the Company after adjustments to reflect the Restructuring Exercise, the increase in the authorised share capital, consolidation and sub-division of the ordinary shares and the issuance of new shares in connection with the Invitation are set forth below:

	After the increase in authorised share capital, the Restructuring Exercise, consolidation, and sub-division of shares HK\$	As adjusted for Invitation HK\$
<b>Authorised Share Capital</b>		
Ordinary shares of HK\$0.15 each	900,000,000	900,000,000
<b>Shareholders' Equity</b>		
Share capital	33,834,000	45,384,000
Share premium	–	58,252,040
	33,834,000	103,636,040

## C. Restructuring Exercise

A Restructuring Exercise as described in the Prospectus was undertaken in connection with the Invitation.

The following steps were taken in the Restructuring Exercise in accordance with the Reorganisation Deed dated 19 May 2004 and a share sale agreement in respect of the shares of Daka Technology Limited dated 19 May 2004 and a share sale agreement in respect of the shares of Datasia Limited, Daka Direct Inc. and Ceba (Hong Kong) Limited:

- (a) Daka Development Limited disposed of its shareholdings in Datasia Limited, Daka Japan Co., Ltd., Daka Direct Inc. and Ceba (Hong Kong) Limited, and Sino Dragon Pacific Limited disposed of its shareholding in Daka Technology Limited, to Amrich Investments Limited.
- (b) Daka Investment International Limited acquired all shares then in issue in Daka Development Limited, Daka Holdings Inc. and Daka Research Inc. from Mr. Pat Y. Mah, Mr. Raymond Chow and Madam Rose Chow, Green Global Limited and Sinclair Research Limited (the "Shareholders"). In return for the acquisition of the shares in Daka Development Limited, Daka Holdings Inc. and Daka Research Inc., Daka Investment International Limited allotted and issued shares to the Shareholders of aggregate of 20,309 shares.

# UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

## C. Restructuring Exercise (continued)

- (c) The Shareholders transferred 30,309 shares in the capital of Daka Investment International Limited, representing its entire issued share capital on 24 May 2004, to the Company in consideration of the allotment and issue of 337,340,000 shares of HK\$0.10 each in the capital of the Company to the Shareholders and the crediting as fully paid of the 1,000,000 shares which were previously issued as nil paid to the Shareholders. These said ordinary shares of HK\$0.10 each were subsequently consolidated and sub-divided into HK\$0.15 each to become 225,560,000 ordinary shares.

## D. The Proforma Group

Upon completion of the Restructuring Exercise, the Company has the following subsidiaries and associated company:

Name	Date and place of incorporation	Percentage of equity interest attributable to the Proforma Group	Paid-up share/ registered capital	Principal activities
<b>1. Subsidiaries</b>				
<i>Directly held:</i>				
Daka Investment International Limited	20 February 2004 British Virgin Islands	100%	US\$30,309	Investment holding
<i>Indirectly held:</i>				
Daka Development Limited	29 June 1993 Hong Kong	100%	HK\$515,450	Design, development and marketing of innovative products for the consumer market and investment holding
Leyman International Limited	22 June 1998 Hong Kong	100%	HK\$10,000	Holding of moulds and tools
Daka Research Limited	18 September 2000 Hong Kong	100%	HK\$500,000	Dormant
Sino Dragon Pacific Limited	12 December 1995 British Virgin Islands	100%	US\$10	Dormant



# UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

## D. The Proforma Group (continued)

Name	Date and place of incorporation	Percentage of equity interest attributable to the Proforma Group	Paid-up share/ registered capital	Principal activities
Daka Health & Wellness (USA) Limited	22 November 2000 British Virgin Islands	100%	US\$1	Investment holding
Daka Health & Wellness (USA), Inc.	17 January 2002 United States of America	100%	US\$100	Dormant
Daka Robocorp Limited	3 November 2000 British Virgin Islands	95 %	US\$19,000	Dormant
Daka Holdings Inc.	7 June 2002 British Virgin Islands	100%	US\$10,000	Investment holding
Briga Group (Macao Commercial Offshore) Company Limited	26 November 2002 Macao	100%	MOP100,000	Sales of innovative products for the consumer market
Daka Research Inc.	12 January 2001 British Virgin Islands	100%	US\$10,000	Product design and development and investment holding
Daka Research (UK) Limited	21 June 2002 United Kingdom	100%	GBP100	Research and development of consumer products
<b>2. Associated company</b>				
<i>Indirectly held:</i>				
Daka Europe Limited	26 June 2002 United Kingdom	50%	GBP100	Importing goods for resale and provision of sales agency services

# UNAUDITED PROFORMA CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 March 2004

	Note	2003 HK\$'000	2004 HK\$'000
<b>TURNOVER</b>	2	146,362	152,095
Cost of sales		(93,361)	(94,844)
<b>Gross profit</b>		53,001	57,251
Other revenue	2	2,383	3,605
Selling and distribution costs		(6,949)	(8,266)
Administrative expenses		(18,687)	(24,136)
Other operating expenses		(6,295)	(3,154)
<b>PROFIT FROM OPERATIONS</b>	3	23,453	25,300
Finance costs	4	(1,657)	(2,137)
Share of profits/(losses) of associated companies		53	(292)
<b>PROFIT BEFORE TAXATION</b>		21,849	22,871
Taxation	5	(3,984)	(2,869)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		17,865	20,002
Minority interests		1	–
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		17,866	20,002
<b>EARNINGS PER SHARE</b>			
Basic (HK cents)			
- Based on pre-Invitation number of shares of 225,560,000		7.92	8.87
- Based on post-Invitation number of shares of 302,560,000		5.91	6.61

# UNAUDITED PROFORMA CONSOLIDATED BALANCE SHEET

As at 31 March 2004

	Note	2003 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	12,732	12,619
Deferred development costs	8	6,129	9,055
Interests in associated companies	9	4,254	2,009
Available-for-sale investments	10	13,560	7,278
Club memberships, at cost		462	462
		37,137	31,423
<b>CURRENT ASSETS</b>			
Inventories, at cost	12	16,365	1,371
Trade receivables	13	19,317	30,221
Bills receivables	20	1,073	–
Prepayments, deposits and other receivables	14	4,024	4,144
Due from related parties	15	390	–
Due from investee companies	11	323	30,622
Proforma loan due from major shareholders	16	14	14
Tax recoverable		–	2,272
Pledged bank balances	20	10,895	14,952
Bank and cash balances		974	1,256
		53,375	84,852
<b>CURRENT LIABILITIES</b>			
Trade payables		13,259	575
Bills payables	20	13,529	18,638
Accruals, other payables and trade deposits received	17	3,827	6,269
Due to related parties	15	1	–
Due to directors	15	–	1,417
Interest-bearing loans and borrowings	18	17,728	40,479
Provision for taxation		1,785	965
		50,129	68,343
<b>NET CURRENT ASSETS</b>			
		3,246	16,509
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		40,383	47,932
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	18	4,805	7,454
Deferred taxation	19	2,324	2,000
		7,129	9,454
<b>MINORITY INTERESTS</b>			
		6	6
<b>NET ASSETS</b>			
		33,248	38,472
<b>Represented by:</b>			
<b>PROFORMA SHAREHOLDERS' EQUITY</b>			
		33,248	38,472

# UNAUDITED PROFORMA CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 March 2004

	Note	2003 HK\$'000	2004 HK\$'000
At beginning of financial year		16,371	33,248
Net profit for the financial year		17,866	20,002
Issue of share capital of a subsidiary		–	78
Surplus/(Deficit) on revaluation on available-for-sale investments		6,625	(6,300)
Dividends paid by a subsidiary to the then shareholders of the subsidiary	6	(7,614)	(8,556)
At end of financial year		<u>33,248</u>	<u>38,472</u>

# UNAUDITED PROFORMA CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 March 2004

	2003 HK\$'000	2004 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	21,849	22,871
Adjustments for:		
Depreciation	5,651	6,374
Amortisation of deferred development costs	1,482	1,976
Deferred development costs written off	2,117	–
Impairment loss for available-for-sale investments	15	–
Loss on disposal of trading investments	434	–
Share of (profits)/losses of an associated company	(53)	292
Fixed assets written off	570	–
Interest expenses	1,539	2,009
Interest on finance leases	118	128
Gain on disposal of an associated company	–	(251)
Gain on disposal of fixed assets	(24)	(8)
Interest income	(317)	(102)
Operating profit before working capital changes	33,381	33,289
(Increase)/decrease in inventories	(5,233)	14,994
Increase in trade receivables	(3,985)	(10,904)
(Increase)/decrease in net amounts due from/(to) related parties	(82)	389
(Increase)/decrease in bills receivables	(1,073)	1,073
Increase in prepayments, deposits and other receivables	(953)	(120)
Increase/(decrease) in trade payables	6,316	(12,684)
Increase in bills payables	4,312	5,109
Increase in accruals, other payables and trade deposits received	1,312	2,442
Increase in amounts due to directors	–	1,495
Cash generated from operations	33,995	35,083
Interest paid	(1,539)	(2,009)
Interest on finance leases	(118)	(128)
Profits tax paid	(2,978)	(6,250)
Net cash generated from operating activities	29,360	26,696

# UNAUDITED PROFORMA CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the financial year ended 31 March 2004

	2003 HK\$'000	2004 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions of deferred development costs	(3,285)	(4,902)
Purchase of fixed assets	(9,218)	(5,949)
Purchase of trading investments	(773)	–
Purchase of available-for-sale investments	(6,435)	–
Acquisition of shares in an associated company	(1)	–
Proceeds from disposal of an associated company	–	32
Proceeds from disposal of fixed assets	36	56
Proceeds from disposal of trading investments	380	–
Net advance to investee companies	(323)	(25,444)
Net advance to associated companies	(4,322)	(2,736)
Increase in proforma loan due from major shareholders	(7)	–
Increase in pledged bank balances	(1,979)	(4,057)
Interest received	317	102
Net cash used in investing activities	(25,610)	(42,898)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank loans raised	16,008	49,491
Repayment of bank loans	(17,158)	(22,945)
Capital element of finance lease payments	(1,277)	(1,317)
Dividends paid	(7,614)	(8,556)
Net cash (used in)/generated from financing activities	(10,041)	16,673
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(6,291)	471
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>	4,882	(1,409)
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	(1,409)	(938)
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	974	1,256
Bank overdrafts	(2,383)	(2,194)
	(1,409)	(938)



# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

The Company is incorporated in Bermuda with its principal place of business at Unit C, 8/F., Leroy Plaza, 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong.

The principal activities of the Proforma Group are investment holding, design, development and marketing of innovative products for the consumer market.

## 1. **PRINCIPAL ACCOUNTING POLICIES**

### **Basis of preparation**

The basis of preparation of the unaudited proforma consolidated financial statements is set out in Section A above.

Minority interests represent the interests of outside shareholders in the results and net assets of the subsidiaries and are recognised up to the amounts of capital attributable to minority shareholders.

### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power, or otherwise has power to govern the financial and operating policies.

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

### **Associated companies**

An associated company is a company over which the Proforma Group is in a position to exercise significant influence, but not control, through participation in financial and operating policy decisions.

The Proforma Group's share of the post-acquisition results and reserves of associated companies is included in the proforma consolidated income statement and proforma consolidated reserves, respectively. The Proforma Group's interests in associated companies are stated in the proforma consolidated balance sheet under the equity method of accounting. Interests in associated companies are carried in the proforma consolidated balance sheet at cost plus post-acquisition changes in the Proforma Group's share of net assets, less any impairment losses.

When Proforma Group's share of losses of an associated company equals or exceeds the carrying amount of an investment, the Proforma Group ordinarily discontinues including its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the Proforma Group has incurred obligations or made payment on behalf of the associated company to satisfy obligations of the associated company that the Proforma Group has guaranteed or otherwise committed. When the associated company subsequently reports profits, the Proforma Group resumes including its share of those profits only after its share of the profits equals the share of net losses not recognised.

An assessment of interests in associated companies is performed when there is indication that the asset has been impaired or the impairment losses recognised in the prior years no longer exist.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

### **Associated companies (continued)**

Unrealised profits and losses resulting from transactions between the Proforma Group and its associated companies are eliminated to the extent of the Proforma Group's interest in the associated company except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the proforma consolidated income statement.

### **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Plant and machinery	30%
Moulds and tools	30%
Engineering equipment	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the proforma consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives to the Proforma Group.

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

### **Investments**

The Proforma Group classified its investments into the following categories: trading and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale investments; and are included in non-current assets unless management has the express intention of holding the investment for less than twelve months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

### **Investments (continued)**

Purchases and sales of investments are recognised on the trade date, which is the date that the Proforma Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Investments are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the proforma consolidated income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale investments are recognised as a separate component of equity. The fair value of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale investments are sold or impaired, the cumulative unrealised gains and losses previously reported in equity is included in the proforma consolidated income statement as gains and losses from investments.

### **Club membership**

Club membership is stated at cost less impairment loss, if any. The carrying amount of club membership is reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such membership should be reduced to its fair value. The amount of the reduction is recognised as an expense in the proforma consolidated income statement.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Trade receivables**

Trade receivables are carried at original invoice amount less an estimate made for doubtful debts.

Known bad debts are written off and doubtful debts are provided based on estimates of possible losses in respect of certain outstanding debtors' accounts.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

### **Research and development costs**

All research costs are charged to the proforma consolidated income statement as incurred.

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

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products or services not exceeding three years commencing from the date when the products are put into commercial production. Where the commercial lives of the underlying products or services are found to be less than three years subsequently put into commercial production, the balance of the unamortised cost will expense off immediately.

### **Impairment of assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the proforma consolidated income statement in the year in which it arises.

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

A reversal of an impairment loss is credited to the proforma consolidated income statement in the year in which it arises.

### **Trade payables**

Trade payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

### **Provisions**

Provisions are recognised when the Proforma Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **Employee benefits**

#### (i) Long service payments

Certain employees of the Proforma Group have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Employment Ordinance") to be eligible for long service payments upon termination of their employment. The Proforma Group is only liable to make such payments when the termination meets the required circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources of the Proforma Group.

#### (ii) Pension obligations

The Proforma Group contributes to defined contribution retirement plans based on local practices and regulations. The plans cover Hong Kong full-time employees and contributions are provided for at 5% of salary. The Proforma Group's contributions relating to defined contribution plans are charged as expenses in the year to which they relate.

#### (iii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for unconsumed leave as a result of services rendered by employees up to the balance sheet date.

### **Finance leases**

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

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

### **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets are retained by the lessor are accounted for as operating leases.

- (i) As lessee  
Rental expenses applicable to such operating leases are charged to the proforma consolidated income statement on a time proportion basis over the lease terms.
- (ii) As lessor  
Rental income applicable to such operating leases is recognised in the proforma consolidated income statement on a time proportion basis over the lease terms.

### **Taxation**

Current income tax is provided based on the results for the year as adjusted for items which are non-assessable or disallowable.

Deferred tax is provided in full, using the balance sheet liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the proforma consolidated balance sheet. The tax bases of assets and liabilities are the amounts attributed to these assets or liabilities for tax purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

### **Foreign currencies**

- (i) Transactions in foreign currencies  
Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the applicable rates of exchange ruling at the balance sheet date. Profits and losses resulting from this translation policy are included in the proforma consolidated income statement.
- (ii) Translation of foreign financial statements  
The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statement's items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary or associated company, the related cumulative exchange difference is included in the proforma consolidated income statement as part of the gain or loss on disposal.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

### **Related parties**

Two 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.

### **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income on plant and machinery is recognised on a time proportion basis over the lease terms.

Revenue from the provision of services is recognised when the services are rendered.

### **Cash and cash equivalents**

For the purpose of the proforma consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired less advances from banks repayable within three months from the date of the advance.

### **Segment reporting**

A segment is a distinguishable component of the Proforma Group to a particular industry (business segment) and within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing loans, borrowings and expenses, and corporate assets, corporate liabilities and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period. Segment capital expenditure includes fixed assets and intangible assets.



# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

### **Segment reporting (continued)**

Segment information is presented in respect of the Proforma Group's business and geographical segments. The primary format, business segments, is based on the Proforma Group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue and segment assets are based on the nature of the products or services provided by the Proforma Group. In determining the Proforma Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets, liabilities and capital expenditure are attributed to the segments based on the location of the assets.

## 2. **REVENUE AND TURNOVER**

	2003 HK\$'000	2004 HK\$'000
Turnover		
Sales of goods	146,362	152,095
Other revenue		
Gain on disposal of an associated company	–	251
Handling fee	5	–
Interest income	317	102
Management fee	514	2,068
Rental income on plant and machinery	956	929
Sundry income	591	255
	2,383	3,605
Total revenue	148,745	155,700

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 3. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting):

	2003 HK\$'000	2004 HK\$'000
Directors' remuneration		
As directors	30	15
For management		
Salaries, allowance and benefit-in-kind	1,458	1,466
Retirement scheme contribution	155	147
	1,643	1,628
Auditors' remuneration		
Auditors of the Company	132	330
Auditors of the subsidiary	5	15
Other fees to auditors		
Auditors of the Company	62	23
Cost of inventories sold	79,082	79,032
Deferred development costs written off	2,117	–
Depreciation		
Owned fixed assets	4,705	5,337
Leased fixed assets	946	1,037
	5,651	6,374
Amortisation of deferred development costs	1,482	1,976
Fixed assets written off	570	–
Gain on disposal of fixed assets	(24)	(8)
Loss on disposal of trading investments	434	–
Impairment loss for available-for-sale investments	15	–
Provision for doubtful debts	566	(432)
Staff costs		
Salaries, wages and allowance	9,444	11,759
Retirement scheme contribution	433	427
Other costs	1,204	1,307
	11,081	13,493
Research and development costs	3,539	1,146
Operating lease rental expenses in respect of premises	949	998
Exchange (gain)/loss, net	(8)	488

The Proforma Group employed approximately 102 and 152 employees as of 31 March 2003 and 2004 respectively.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 4. FINANCE COSTS

	2003 HK\$'000	2004 HK\$'000
Interest on bank loans and overdrafts	1,539	2,009
Interest on finance leases	118	128
	<u>1,657</u>	<u>2,137</u>

## 5. TAXATION

(i) The amount of tax in the proforma consolidated income statement represents:

	2003 HK\$'000	2004 HK\$'000
Hong Kong income tax		
– current	3,816	3,158
– deferred	168	(324)
	<u>3,984</u>	<u>2,834</u>
Share of tax attributable to an associated company		
Overseas income tax		
– current	–	35
	<u>3,984</u>	<u>2,869</u>

Hong Kong income tax has been provided at the applicable tax rates on the estimated assessable profits arising in Hong Kong during the financial year ended 31 March 2004. Taxation on profits assessable elsewhere has been calculated on the estimated assessable profits for the financial year ended 31 March 2004 at the rates of taxation prevailing in the jurisdictions in which the Proforma Group operates, based on existing legislation, interpretations and practices in respect thereof.

There was no material unprovided deferred income tax during the financial years ended 31 March 2003 and 2004.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 5. TAXATION (continued)

- (ii) A reconciliation of the expected theoretical taxation with the taxation charged to the unaudited proforma consolidated income statement is presented below:

	2003 HK\$'000	2004 HK\$'000
Profit before taxation	21,849	22,871
Applicable tax rates	16%	17.5%
Expected taxation at the applicable tax rate	3,496	4,002
Income that are not taxable in determining taxable profits	–	(2,386)
Expenses that are not deductible in determining taxable profits	18	1,258
Tax effect of losses not available to offset against taxable profits	443	238
Impact on deferred tax liability resulting from increase in tax rate	(2)	–
Tax effect arising from share of results of associated companies	(8)	86
Over/(under) provision of taxation charge	37	(329)
Taxation charge	3,984	2,869

## 6. DIVIDENDS

No dividend declared or paid by the Company since the date of its incorporation.

The dividends declared and paid by a subsidiary, Daka Development Limited, to its then shareholders are as follows:

	2003 HK\$'000	2004 HK\$'000
Interim dividends	7,614	8,556

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 7. FIXED ASSETS

	Leasehold improvements	Plant and machinery	Moulds and tools	Engineering equipment	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>								
At 1 April 2003	815	2,491	14,679	1,384	971	4,216	1,116	25,672
Additions	24	626	4,574	192	51	721	121	6,309
Disposals	–	–	–	–	–	–	(175)	(175)
At 31 March 2004	839	3,117	19,253	1,576	1,022	4,937	1,062	31,806
<b>Accumulated depreciation</b>								
At 1 April 2003	560	1,171	7,157	804	718	2,096	434	12,940
Charge for the year	165	859	3,750	288	122	849	341	6,374
Disposals	–	–	–	–	–	–	(127)	(127)
At 31 March 2004	725	2,030	10,907	1,092	840	2,945	648	19,187
<b>Net book value</b>								
At 31 March 2004	114	1,087	8,346	484	182	1,992	414	12,619
At 31 March 2003	255	1,320	7,522	580	253	2,120	682	12,732

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 7. **FIXED ASSETS (continued)**

The net book value of fixed assets of the Proforma Group held under finance leases amounted to approximately HK\$1,913,000 and HK\$1,137,000 as at 31 March 2003 and 31 March 2004, respectively (note 18).

The net book value of plant and machinery of the Proforma Group held for use in operating leases was approximately HK\$1,266,000 and HK\$543,000 as at 31 March 2003 and 31 March 2004, respectively (note 23 (ii)).

## 8. **DEFERRED DEVELOPMENT COSTS**

Development costs principally comprise internally generated expenditure on research and development costs on projects where it is reasonably expected that the costs will be recovered through future commercial activities.

	2003 HK\$'000	2004 HK\$'000
<b>Cost</b>		
At the beginning of the financial year	9,124	8,524
Additions	3,285	4,902
Write off	(3,885)	–
At the end of the financial year	8,524	13,426
<b>Accumulated amortization</b>		
At the beginning of the financial year	2,681	2,395
Charge for the financial year	1,482	1,976
Write off	(1,768)	–
At the end of the financial year	2,395	4,371
<b>Net book value</b>		
At the end of the financial year	6,129	9,055

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 9. INTERESTS IN ASSOCIATED COMPANIES

	2003 HK\$'000	2004 HK\$'000
Share of net liabilities	(147)	(273)
Due from an associated company – non-trade in nature	4,855	–
Due (to)/from an associated company – trade in nature	(454)	2,282
	<u>4,254</u>	<u>2,009</u>

Details of the associated company are disclosed in Section D on page 28 of this report.

The amounts with associated companies are unsecured, interest-free and repayable on demand.

Included in interests in associated companies as at 31 March 2003 are results in relation to the Proforma Group's 50% equity interest in an ex-associated company. On 1 April 2003, the Proforma Group disposed its 32% equity interest in an ex-associated company. Subsequent to the disposal, the Proforma Group effectively holds 18% equity interest in this ex-associated company and, accordingly, the investment in this ex-associated company is classified as an available-for-sale investment set out in note 10 and the amount due from this ex-associated company is classified as amount due from an investee company set out in note 11.

## 10. AVAILABLE-FOR-SALE INVESTMENTS

	2003 HK\$'000	2004 HK\$'000
Equity securities listed in the United States of America, at fair value	13,051	6,751
Unlisted investments, at cost	15	33
Impairment losses	(15)	(15)
	–	18
Listed guaranteed fund, at fair value (note)	509	509
	<u>13,560</u>	<u>7,278</u>

Note:

The listed guaranteed fund was pledged as security for the Proforma Group's banking facilities (note 20).



# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 11. DUE FROM INVESTEE COMPANIES

	2003 HK\$'000	2004 HK\$'000
Due from an investee company, with specific repayment term (notes (i) and (ii))	–	11,242
Due from investee companies, repayable on demand (note (i))	323	19,380
	<u>323</u>	<u>30,622</u>

Notes:

- (i) The amounts due from investee companies are non-trade in nature, unsecured and interest-free.
- (ii) The aggregate balance due from an investee company amounted to approximately HK\$9,183,000 is repayable by twelve monthly installments commencing on 1 March 2004 pursuant to an agreement dated 19 May 2004. In consideration of granting the loan to the investee company, the Proforma Group is entitled to rebate at a rate of 1.5%, or such other rate as agreed, on the amount of invoices issued by a subsidiary of the investee company for the supply of goods to the Proforma Group during the period from 1 October 2003 to 28 February 2005.

In addition, the balance due from an investee company of approximately HK\$9,183,000 is secured by a first charge over the shares in a subsidiary of the investee company and the personal guarantee executed by the major shareholder of the investee company.

## 12. INVENTORIES, AT COST

	2003 HK\$'000	2004 HK\$'000
Raw materials	15,447	–
Finished goods	918	1,371
	<u>16,365</u>	<u>1,371</u>

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 13. TRADE RECEIVABLES

	2003 HK\$'000	2004 HK\$'000
Trade receivables	19,883	30,355
Less: Provision for doubtful debts	(566)	(134)
	<u>19,317</u>	<u>30,221</u>

The movements in the provision for doubtful debts are as follows:

	2003 HK\$'000	2004 HK\$'000
At the beginning of the financial year	–	566
Provided/(written back) during the financial year	566	(432)
At the end of the financial year	<u>566</u>	<u>134</u>

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2003 HK\$'000	2004 HK\$'000
Prepayments	395	524
Deposits (note)	3,149	3,134
Other receivables	480	486
	<u>4,024</u>	<u>4,144</u>

Note:

Deposits include non-audit fees in connection with the initial public offering amounting to HK\$323,000 paid to auditors of the Company.

## 15. DUE FROM/(TO) RELATED PARTIES/DIRECTORS

The amounts due are non-trade in nature, unsecured, interest-free and repayable within the next twelve months.

## 16. PROFORMA LOAN DUE FROM MAJOR SHAREHOLDERS

The amounts due are non-trade in nature, unsecured, interest-free and repayable within the next twelve months.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 17. ACCRUALS, OTHER PAYABLES AND TRADE DEPOSITS RECEIVED

	2003 HK\$'000	2004 HK\$'000
Accruals	1,711	3,581
Other payables	168	11
Trade deposits received	1,948	2,677
	<u>3,827</u>	<u>6,269</u>

## 18. INTEREST-BEARING LOANS AND BORROWINGS

	2003 HK\$'000	2004 HK\$'000
<b>Current liabilities</b>		
Secured bank overdrafts (note 20)	2,383	2,194
Secured packing loans (note 20)	2,909	8,795
Secured short term bank loans (note 20)	7,942	21,549
Current portion of secured long term bank loans (note 20)	3,200	7,406
Current portion of finance lease payables (note 7)	1,294	535
	<u>17,728</u>	<u>40,479</u>
<b>Non-current liabilities</b>		
Secured long term bank loans (note 20)	4,357	7,204
Finance lease payables (note 7)	448	250
	<u>4,805</u>	<u>7,454</u>

The secured long term bank loans are repayable as follows:

	2003 HK\$'000	2004 HK\$'000
Not later than one year (shown under current liabilities)	3,200	7,406
Later than one year, but not later than two years	2,820	5,728
Later than two years, but not later than five years	1,537	1,476
	<u>7,557</u>	<u>14,610</u>

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 18. INTEREST-BEARING LOANS AND BORROWINGS (continued)

Finance leases payables are repayable as follows:

	2003		2004	
	Minimum <u>payments</u> HK\$'000	Present value <u>of payments</u> HK\$'000	Minimum <u>payments</u> HK\$'000	Present value <u>of payments</u> HK\$'000
Not later than one year (shown under current liabilities)	1,409	1,294	613	535
Later than one year, but not later than five years	510	448	266	250
Total minimum finance lease payments	1,919	1,742	879	785
Future finance charges	(177)		(94)	
Total net finance lease payables	1,742		785	
Current portion	(1,294)		(535)	
Non-current portion	448		250	

The Proforma Group's interest-bearing loans and borrowings bear interests ranging from 5.0% to 5.7% per annum for the financial year ended 31 March 2003 and from 4.0% to 6.0% per annum for the financial year ended 31 March 2004.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 19. DEFERRED TAXATION

The movements for the year in the net deferred tax position are as follows:

	2003 HK\$'000	2004 HK\$'000
At the beginning of the financial year	2,156	2,324
Charge/(credit) to the proforma consolidated income statement for the financial year (note 5)	168	(324)
At the end of the financial year	<u>2,324</u>	<u>2,000</u>

The major deferred tax liabilities recognised by the Proforma Group are as follows:

	2003 HK\$'000	2004 HK\$'000
Accelerated tax depreciation	1,197	1,162
Deferred development costs	771	857
Others	356	(19)
	<u>2,324</u>	<u>2,000</u>

## 20. BANKING FACILITIES

The Proforma Group had general banking facilities granted by banks to the extent of approximately HK\$66 million and HK\$99 million as at 31 March 2003 and 31 March 2004, respectively. The banking facilities were secured by the following:

- (i) Unlimited personal guarantees given by two directors of its subsidiary, Daka Development Limited;
- (ii) Cross corporate guarantees given by its subsidiaries, Daka Development Limited and Leyman International Limited;
- (iii) Fixed deposit of its subsidiary, Daka Development Limited;
- (iv) Listed guaranteed fund of its subsidiary, Daka Development Limited; and
- (v) Guarantees given by the Government of the Hong Kong Special Administrative Region to the extent of approximately HK\$1.7 million.

In addition, the Proforma Group is required to comply with certain restrictive financial covenants imposed by banks. The financial covenants include a restriction that a subsidiary, Daka Development Limited, cannot distribute more than 50% of its annual net profit without consents given by the banks.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 21. NOTE TO THE PROFORMA CONSOLIDATED STATEMENT OF CASH FLOWS

### Major non-cash transactions

During the financial years ended 31 March 2003 and 2004, the Proforma Group entered into finance leases in respect of the acquisition of fixed assets with an aggregate capital value of approximately HK\$131,000 and HK\$360,000, respectively.

## 22. COMMITMENTS

### (i) Capital commitments

At balance sheet date, the Proforma Group had the following capital commitments in respect of purchase of fixed assets:

	2003 HK\$'000	2004 HK\$'000
Contracted but not provided for	531	1,519

### (ii) Financial commitments

The Proforma Group had financial commitments in respect of unpaid royalty fees as follows:

- (a) Pursuant to the patent and technology license agreements entered into between a subsidiary and a related party in respect of the usage of the related party's patent rights and technology in relation to certain products, the subsidiary is required to pay total minimum royalty payments of approximately HK\$1,250,000 for each year commencing from 1 April 2005 onwards.
- (b) Pursuant to an exclusive patent and technology development agreement dated 14 June 2003 entered into between a subsidiary and a third party in respect of the usage of the third party's patents and technology in relation to certain products, the subsidiary is required to pay a minimum royalty payments of approximately HK\$140,000 for each year commencing from 1 July 2003 onwards until the expiry of the life of the granted patent or 20 years, whichever is greater, or upon the termination of the agreement. With regard to the royalty paid for the period from 1 July 2003 to 30 June 2004, approximately HK\$127,000 has been charged to the proforma consolidated income statement up to 31 March 2004.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 22. COMMITMENTS (continued)

### (ii) Financial commitments (continued)

- (c) At the balance sheet date, other than the commitments mentioned in notes (ii) (a) and (ii) (b) above, the total minimum royalty commitments in respect of unpaid royalty fees are as follows:

	2003 HK\$'000	2004 HK\$'000
Not later than one year	–	1,617
Later than one year, but not later than two years	585	1,880
Later than two years, but not later than five years	663	1,404
	<u>1,248</u>	<u>4,901</u>

## 23. OPERATING LEASE ARRANGEMENTS

### (i) As lessee

At the balance sheet date, the Proforma Group was committed to make the following rental payments in respect of non-cancellable operating leases of office and warehouse premises, which fall due:

	2003 HK\$'000	2004 HK\$'000
Not later than one year	720	438
Later than one year, but not later than five years	96	19
	<u>816</u>	<u>457</u>

Most of the leases do not contain options to renew the tenancy.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 23. OPERATING LEASE ARRANGEMENTS (continued)

(ii) As lessor

At the balance sheet date, the Proforma Group's future minimum lease receivables under non-cancellable operating leases of plant and machinery are as follows:

	2003 HK\$'000	2004 HK\$'000
Not later than one year	929	388
Later than one year, but not later than five years	388	–
	<u>1,317</u>	<u>388</u>

The leases of the Proforma Group's plant and machinery on which rental income is received will expire in August 2004 without option for renewals.

## 24. RELATED PARTY TRANSACTIONS

Apart from the balances with related parties disclosed in notes 9, 15 and 16, the following transactions have been entered into by the Proforma Group during the financial year with related parties negotiated on terms mutually agreed with these related parties:

	2003 HK\$'000	2004 HK\$'000
<i>Related party</i>		
Royalties paid	541	1,359
<i>Associated companies</i>		
Purchases	746	–
Sales	–	5,384
Management fee income	514	668
Subcontracting fee paid	8,553	–
Commission paid	<u>1,800</u>	<u>1,985</u>



# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 25. FINANCIAL INSTRUMENTS

The Proforma Group's financial assets mainly include bank and cash balances, trade receivables, bills receivables, other receivables, amounts due from related parties, and investee companies, available-for-sale investments and club memberships. The Proforma Group's financial liabilities include trade payables, bills payables, other payables, amounts due to directors, and interest-bearing loans and borrowings.

### (i) Credit risk

The carrying amounts of the trade receivables included in the unaudited proforma consolidated balance sheet represent the Proforma Group's maximum exposure to credit risk in relation to the Proforma Group's financial assets. No other financial assets carry a significant exposure to credit risk. As at 31 March 2004, the three largest trade receivables represent approximately 61% (2003: 67%) of the total trade receivables at the balance sheet date.

The Proforma Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The provision for doubtful debts is based upon a review of the expected collectibility of all trade receivables.

### (ii) Interest rate risk

The Proforma Group's exposure to interest rate risk relates principally to its interest-bearing loans and borrowings. These loans and borrowings bear interests at floating rates varied with the then prevailing market condition.

### (iii) Liquidity risk

The Proforma Group manages their liquidity risk by ensuring the availability of funding through an adequate amount of committed credit facilities from financial institutions. Due to the nature of the Proforma Group's underlying business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

### (iv) Foreign exchange risk

The Proforma Group incurs foreign currency risk predominantly on sales to overseas customers which are generally denominated in United States dollars. Hong Kong dollars have been pegged with United States dollars. Accordingly, the directors of the Company consider the Proforma Group's foreign exchange risk to be insignificant.

### (v) Fair values

The fair values of the amounts with related parties and directors are not determinable due to the related party nature of the transactions. Apart from the foregoing, the carrying amounts of the Proforma Group's financial assets and financial liabilities as reflected in the proforma consolidated balance sheet approximate their respective net fair values.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 26. **POST BALANCE SHEET EVENTS**

Subsequent to 31 March 2004, the following events occurred:

- (i) an increase in the authorised share capital of the Company from HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each to HK\$900,000,000 divided into 9,000,000,000 ordinary shares of HK\$0.10 each;
- (ii) the allotment and issuance of 337,340,000 new ordinary shares of HK\$0.10 each and the crediting as fully paid the 1,000,000 existing but nil paid shares of HK\$0.10 each in the Company pursuant to the Restructuring Exercise;
- (iii) the consolidation of 150 ordinary shares of HK\$0.10 each in the authorised and issued share capital into one ordinary share of HK\$15.00 each;
- (iv) the sub-division of each ordinary share of HK\$15.00 in the authorised and issued share capital of the Company into 100 ordinary shares of HK\$0.15 each;
- (v) the issuance of 77,000,000 ordinary shares of HK\$0.15 each at premium of HK\$0.75652 per share in connection with the Initial Public Offer;
- (vi) the adoption by the directors of a share option scheme on 19 May 2004; and
- (vii) the Company was admitted to the Official List of the Singapore Exchange Securities Trading Limited on 16 July 2004.

## 27. **STATEMENT OF OPERATIONS BY SEGMENTS**

The Proforma Group's primary format for reporting segment information is business segments with each segment representing a strategic business segment that offers different products. The three business segments are Sports and Leisure products, Marine Electronics products and LifeStyle products.

There are no inter-segment sales between the respective segments.

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 27. STATEMENT OF OPERATIONS BY SEGMENTS (continued)

(i) Business segments

**Financial year ended 31 March 2003**

	Sports and Leisure HK\$'000	Marine Electronics HK\$'000	LifeStyle HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	24,804	5,699	115,859	–	146,362
<b>RESULTS</b>					
Segment results	10,039	582	21,973	–	32,594
Unallocated corporate expenses					(11,524)
Other revenue					2,383
Profit from operations					23,453
Finance costs					(1,657)
Share of profits of associated companies					53
Taxation					(3,984)
Minority interests					1
Net profit attributable to shareholders					17,866
<b>ASSETS</b>					
Segment assets	10,890	2,815	54,494		68,199
Interests in associated companies					4,254
Unallocated corporate assets					18,059
Total assets					90,512
<b>LIABILITIES</b>					
Segment liabilities	5,188	1,192	24,235		30,615
Unallocated corporate liabilities					26,643
Minority interests					6
Total liabilities					57,264
<b>OTHER INFORMATION</b>					
Capital expenditure	2,129	976	7,969	1,560	12,634
Depreciation	712	164	3,327	1,448	5,651
Amortisation	251	58	1,173	–	1,482
Other non-cash expenses	455	105	2,127	15	2,702

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 27. STATEMENT OF OPERATIONS BY SEGMENTS (continued)

(i) Business segments (continued)

Financial year ended 31 March 2004

	Sports and Leisure HK\$'000	Marine Electronics HK\$'000	LifeStyle HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	25,527	11,281	115,287	–	152,095
<b>RESULTS</b>					
Segment results	8,719	3,440	21,804	–	33,963
Unallocated corporate expenses					(12,268)
Other revenue					3,605
Profit from operations					25,300
Finance costs					(2,137)
Share of losses of an associated company					(292)
Taxation					(2,869)
Net profit attributable to shareholders					20,002
<b>ASSETS</b>					
Segment assets	19,155	5,096	46,058		70,309
Interests in an associated company					2,009
Unallocated corporate assets					43,957
Total assets					116,275
<b>LIABILITIES</b>					
Segment liabilities	4,277	1,890	19,314		25,481
Unallocated corporate liabilities					52,316
Minority interests					6
Total liabilities					77,803
<b>OTHER INFORMATION</b>					
Capital expenditure	2,125	908	7,260	918	11,211
Depreciation	821	363	3,706	1,484	6,374
Amortisation	332	147	1,497	–	1,976

# NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 March 2004

## 27. STATEMENT OF OPERATIONS BY SEGMENTS (continued)

(ii) Geographical segments

	2003 HK\$'000	2004 HK\$'000
<b>TURNOVER</b>		
USA and Canada	94,578	80,161
Asia	34,570	44,339
Europe and others	17,214	27,595
	<u>146,362</u>	<u>152,095</u>

Over 90% of the Proforma Group's assets, liabilities and capital expenditure are attributable to a single geographical region, which is in Asia. Accordingly, no geographical segment information for assets, liabilities and capital expenditure is presented.

# AUDITORS' REPORT

## **RSM Nelson Wheeler**

羅 申 美 會 計 師 行

Certified Public Accountants

26 July 2004

To the members  
Daka Designs Limited  
(Incorporated in Bermuda with limited liability)

We have audited the accompanying financial statements of Daka Designs Limited for the period from 5 March 2004 (date of incorporation) to 31 March 2004 on pages 27 to 65 which have been prepared in accordance with International Financial Reporting Standards. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2004 in accordance with International Financial Reporting Standards.

RSM Nelson Wheeler  
Certified Public Accountants  
Hong Kong

Yam Tak Fai Ronald  
Partner-in-charge

# BALANCE SHEET

As at 31 March 2004

	Note	HK\$'000
<b>Current Assets</b>		
Deposits paid		78
<b>Current Liabilities</b>		
Due to a related party	3	78
<b>Net Assets</b>		<u>–</u>
<b>Capital and Reserves</b>		
Share capital	4	<u>–</u>
		<u>–</u>

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 5 March 2004 (date of incorporation) to 31 March 2004

## 1. **GENERAL INFORMATION**

The financial statements of the Company for the period from 5 March 2004 (date of incorporation) to 31 March 2004 were authorised for issue in accordance with a resolution of the directors on the date of the Statement of Directors.

The Company is incorporated in Bermuda as an exempted company with limited liability and its principal place of business is located in Hong Kong.

The principal activities of the Company are investment holding during the financial period.

On 16 July 2004, the Company was admitted to the Official List of the Singapore Exchange Securities Trading Limited.

The registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company had no employee as at 31 March 2004.

## 2. **PRINCIPAL ACCOUNTING POLICIES**

### **Basis of preparation**

The financial statements, expressed in Hong Kong dollars, are prepared in accordance with the historical cost convention.

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards.

### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **Foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the applicable rates of exchange ruling at the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 5 March 2004 (date of incorporation) to 31 March 2004

3. **DUE TO A RELATED PARTY**

The amount due is non-trade in nature, unsecured, interest-free and repayable within the next twelve months.

4. **SHARE CAPITAL**

HK\$'000

Authorised:

1,000,000 ordinary shares of HK\$0.10 each

100

Issued and nil paid:

1,000,000 ordinary shares of HK\$0.10 each

—

5. **FINANCIAL INSTRUMENTS**

The Company's financial assets are deposits paid. The Company's financial liabilities are amount due to a related party.

(i) Credit risk

As at balance sheet date, the Company's exposure to credit risks is minimal.

(ii) Interest rate risk

The Company has no interest-bearing financial instruments, hence, is not exposed to any movements in market interest rates.

(iii) Liquidity risk

As at balance sheet date, the Company's exposure to liquidity risk is minimal.

(iv) Foreign exchange risk

The Company incurs foreign currency risk predominantly on deposits paid which are denominated in United States dollars. Hong Kong dollars have been pegged with United States dollars. Accordingly, the directors of the Company consider the Company's foreign exchange risk to be insignificant.

(v) Fair values

The carrying amounts of the financial assets and financial liabilities as reflected in the balance sheet approximate their fair value.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 5 March 2004 (date of incorporation) to 31 March 2004

## 6. POST BALANCE SHEET EVENTS

Subsequent to 31 March 2004, the following events occurred:

- (i) an increase in the authorised share capital of the Company from HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each to HK\$900,000,000 divided into 9,000,000,000 ordinary shares of HK\$0.10 each;
- (ii) the allotment and issuance of 337,340,000 new ordinary shares of HK\$0.10 each and the crediting as fully paid the 1,000,000 existing but nil paid shares of HK\$0.10 each in the Company pursuant to the Restructuring Exercise;
- (iii) the consolidation of 150 ordinary shares of HK\$0.10 each in the authorised and issued share capital into one ordinary share of HK\$15.00 each;
- (iv) the sub-division of each ordinary share of HK\$15.00 in the authorised and issued share capital of the Company into 100 ordinary shares of HK\$0.15 each;
- (v) the issuance of 77,000,000 ordinary shares of HK\$0.15 each at premium of HK\$0.75652 per share in connection with the Initial Public Offer;
- (vi) the adoption by the directors of a share option scheme on 19 May 2004; and
- (vii) the Company was admitted to the Official List of the Singapore Exchange Securities Trading Limited on 16 July 2004.

## 7. COMPARATIVE FIGURES

The Company was incorporated on 5 March 2004, and this being the first set of financial statements, there are therefore no comparative figures.

# STATISTICS OF SHAREHOLDINGS

as at 29 July 2004

Authorised share capital	:	HK\$900,000,000
Issued and fully paid-up capital	:	HK\$45,384,000
Class of shares	:	Ordinary share of HK\$0.15 each
Voting rights	:	One vote per share

## Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	0	0.00	0	0.00
1,000 - 10,000	930	69.77	2,902,000	0.96
10,001 - 1,000,000	388	29.11	37,683,732	12.45
1,000,001 and above	15	1.12	261,974,268	86.59
<b>Total :</b>	<b>1,333</b>	<b>100.00</b>	<b>302,560,000</b>	<b>100.00</b>

## Substantial Shareholders

	Direct Interest	No. of Shares Deemed Interest	%
Chariot Technology Limited	97,341,716	–	32.17
Pat Y. Mah	–	97,341,716	32.17
New Wharton International Limited	86,402,056	–	26.56
Raymond Yiu Man Chow	–	97,341,716	32.17
Rose Chow	–	97,341,716	32.17

Note:

- (1) Pat Y. Mah is deemed to be interested in the 97,341,716 shares registered in the name of Chariot Technology Limited of which he is the sole shareholder.
- (2) Raymond Yiu Man Chow is deemed to be interested in the 86,402,056 shares registered in the name of New Wharton International Limited of which he is the sole shareholder as well as the 10,939,660 shares registered in the name of Microage Investments Limited of which his wife Rose Chow is the sole shareholder.
- (3) Rose Chow is deemed to be interested in the 86,402,056 shares registered in the name of New Wharton International Limited of which her husband Raymond Yiu Man Chow is the sole shareholder as well as the 10,939,660 shares registered in the name of Microage Investments Limited of which she is the sole shareholder.

# STATISTICS OF SHAREHOLDINGS

as at 29 July 2004

## Twenty Largest Shareholders

	Name	No. of Shares	%
1	CHARIOT TECHNOLOGY LIMITED	97,341,716	32.17
2	NEW WHARTON INTERNATIONAL LIMITED	86,402,056	28.56
3	HL BANK NOMINEES (S) PTE LTD	14,500,000	4.79
4	GREEN GLOBAL LIMITED	11,503,560	3.80
5	MICROAGE INVESTMENTS LIMITED	10,939,660	3.62
6	HSBC (SINGAPORE) NOMINEES PTE LTD	9,423,000	3.11
7	DB NOMINEES (S) PTE LTD	7,610,000	2.52
8	SINCLAIR RESEARCH LIMITED	6,766,800	2.24
9	SBI E2-CAPITAL SECURITIES PTE LTD	4,131,408	1.37
10	CHAN YICK PAN, FELIX	3,451,068	1.14
11	UNITED OVERSEAS BANK NOMINEES PTE LTD	3,402,000	1.12
12	HO KA CHUN	2,183,000	0.72
13	UOB KAY HIAN PTE LTD	1,982,000	0.66
14	PHILLIP SECURITIES PTE LTD	1,318,000	0.44
15	NGIN TEO MEE	1,020,000	0.34
16	LIN SAMUEL JR	1,000,000	0.33
17	CITIBANK NOMINEES SINGAPORE PTE LTD	849,000	0.28
18	KIM ENG SECURITIES PTE. LTD.	785,000	0.26
19	NG BOON HAI	720,000	0.24
20	TAY HAN TUNG	700,000	0.23
<b>TOTAL</b>		<b>266,028,268</b>	<b>87.94</b>

## Percentage of Shareholding in Public's Hands

29.61% of the Company's shares are held in the hands of public, accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Daka Designs Limited ("the Company") will be held at Grand Hyatt Singapore, Magnolia 1 Room, 10 Scotts Road, Singapore 228211 on Friday, 27 August 2004 at 10:30 a.m. for the following purposes:

## AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 March 2004 together with the Auditors' Report thereon. (Resolution 1)
2. To re-elect Mr Michael Yue Kwong Chan retiring pursuant to Bye-Law 86(1) of the Company's Bye-laws. (Resolution 2)
3. To re-elect Mr David Chia Tian Bin retiring pursuant to Bye-Law 86(1) of the Company's Bye-laws. (Resolution 3)
4. To re-elect Mdm Rose Chow retiring pursuant to Bye-Law 86(1) of the Company's Bye-laws. (Resolution 4)
5. To approve the payment of Directors' fees of HK\$900,000 (equivalent to S\$195,000) for the year ended 31 March 2004. (Resolution 5)
6. To re-appoint Messrs RSM Nelson Wheeler as the Company's Auditors and to authorise the Directors to fix their remuneration. (Resolution 6)
7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolution, with or without any modifications:

8. **Authority to allot and issue shares up to 50 per centum (50%) of the issued share capital of the Company - Ordinary Resolution**

That pursuant to the provisions of Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors be empowered to allot and issue shares and convertible securities in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares (including shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution) to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the issued share capital of the Company at the time of the passing of this resolution, of which the aggregate number of shares and convertible

# NOTICE OF ANNUAL GENERAL MEETING

securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the issued capital of the Company and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law or the bye-laws of the Company to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities. [See Explanatory Note ]

(Resolution 7)

9. **Authority to allot and issue shares under the Daka Employee Share Option Scheme**

That approval be and is hereby given to the Directors of the Company to offer and grant options to subscribe for shares in the Company in accordance with the provisions of the Daka Employee Share Option Scheme ("ESOS"), and to allot and issue from time to time such number of shares as may be required to be issued pursuant to the exercise of the options under the ESOS, provided always that the aggregate number of new shares to be issued shall not exceed fifteen per centum (15%) of the total issued share capital of the Company on the day preceding the relevant date of grant of the option. [See Explanatory Notes]

(Resolution 8)

By Order of the Board

Kevin Kwok Wah Leung  
Lawrence Kwan  
Secretaries

Singapore,  
Date: 5 August 2004

# NOTICE OF ANNUAL GENERAL MEETING

## **Explanatory Note:**

The Ordinary Resolution 7 proposed in item 8 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares and convertible securities in the Company. The number of shares and convertible securities that the Directors may allot and issue under this Resolution would not exceed fifty per centum (50%) of the issued capital of the Company at the time of the passing of this resolution. For issue of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares and convertible securities to be issued shall not exceed twenty per centum (20%) of the issued capital of the Company.

For the purpose of this resolution, the percentage of issued capital is based on the Company's issued capital at the time this proposed Ordinary Resolution is passed after adjusting for (a) new shares arising from the conversion of convertible securities or employee share options on issue when this proposed Ordinary Resolution is passed and (b) any subsequent consolidation or subdivision of shares.

The Ordinary Resolution 8 proposed in item 9 above, if passed, will empower the Directors of the Company, from the date of the above Meeting until the next Annual General Meeting, to allot and issue shares in the Company of up to a number not exceeding in total fifteen per centum (15%) of the issued share capital of the Company from time to time pursuant to the exercise of the options under the ESOS.

## **Notes:**

1. *If a Shareholder being a Depositor, who is an individual, whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) can attend and vote at the Annual General Meeting (the "Meeting") without the lodgement of any Proxy Form. Depositors who are not individuals can only be represented at the meeting if the nominee(s) are appointed by CDP as CDP's proxy(ies).*
2. *If a Depositor wishes to appoint a proxy/proxies, then the Proxy Form must be signed and deposited at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 10 Collyer Quay #19-08 Ocean Building, Singapore 049315, at least forty-eight (48) hours before the time of the Meeting.*

# corporate information

<b>BOARD OF DIRECTORS</b>	:	Pat Y. Mah (Executive Chairman)  Raymond Yiu Man Chow (Chief Executive Officer)  Rose Chow (Executive Director)  Sir Clive Marles Sinclair (Non-Executive Director)  Michael Yue Kwong Chan (Non-Executive Director)  William Chin Shing Tong (Independent Director)  Dr. Michael Lim Chun Leng (Independent Director)  Roy Chi Ping Chung (Independent Director)  David Chia Tian Bin (Independent Director)
<b>JOINT COMPANY SECRETARIES</b>	:	Kevin Kwok Wah Leung MBA, FCCA, FHKSA, MHKSI  Lawrence Kwan FCIS, MBA
<b>ASSISTANT COMPANY SECRETARY</b>	:	Ira Stuart Outerbridge III FCIS
<b>REGISTERED OFFICE</b>	:	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>COMPANY REGISTRATION NUMBER</b>	:	34932
<b>HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS</b>	:	Unit 8C, 8/F., Leroy Plaza, 15 Cheung Shun St, Cheung Sha Wan, Kowloon Hong Kong SAR
<b>SINGAPORE SHARE TRANSFER AGENT</b>	:	Lim Associates (Pte) Ltd 10 Collyer Quay #19-08 Ocean Building Singapore 049315
<b>BERMUDA SHARE REGISTRAR</b>	:	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda

<b>AUDITORS</b>	:	RSM Nelson Wheeler Certified Public Accountants 7th Floor Allied Kajima Building 138 Gloucester Road Hong Kong SAR Partner-in-charge : Yam Tak Fai Ronald (Appointed since 2004)
<b>SOLICITORS</b>	:	Colin Ng & Partners 50 Raffles Place #29-00 Singapore Land Tower Singapore 048623  Koo and Partners in association with Paul Hastings, Janofsky & Walker LLP 21-22/F Bank of China Tower 1 Garden Road Bank of China Hong Kong SAR  Conyers Dill & Pearman 50 Raffles Place #18-04 Singapore Land Tower Singapore 048623  Pu Dong Law Office 6/F Tomson Financial Building 710 Dong Fang Road Shanghai 200122 PRC
<b>PRINCIPAL BANKERS</b>	:	The Hong Kong and Shanghai Banking Corporation Room 1005 – 1012 Cheung Sha Wan Plaza, Tower 2 833 Cheung Sha Wan Road Kowloon Hong Kong SAR  DBS Bank (Hong Kong) Limited 16th Floor The Center 99 Queen's Road Central Central Hong Kong SAR

\* Ira Stuart Outerbridge III will resign as Joint Company Secretary upon listing of our Shares on the SGX-ST.



