

# Notes to The Financial Statements

For the year ended 31st December, 2002

## 1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27th February, 2002 under the Companies Law (Revised) Chapter 22 of the Cayman Islands.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 30.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company issued shares in exchange for the entire issued share capital of PME International (BVI) Company Limited, the former holding company of the Group, and thereby became the holding company of the Group on 23rd October, 2002. Details of the Group Reorganisation and the placing and public offer of shares of the Company (“Placing and Public Offer”) are set out in the prospectus dated 31st October, 2002 issued by the Company.

The shares of the Company have been listed on the Stock Exchange with effect from 13th November, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. In addition, the adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

### Foreign currencies

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

# Notes to

## *The Financial Statements (Continued)*

*For the year ended 31st December, 2002*

### **2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

*(Continued)*

#### **Cash flow statements**

Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid, interest received and dividend paid which were previously presented under a separate heading, are classified as operating, investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

#### **Employee benefits**

SSAP 34 “Employee Benefits” introduced the measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

### **3. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for revaluation of land and buildings.

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

#### **Basis of consolidation**

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

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

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

**3. PRINCIPAL ACCOUNTING POLICIES (Continued)****Investments in subsidiaries**

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

**Revenue recognition**

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

Service income is recognised when services are rendered.

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

**Property, plant and equipment**

Property, plant and equipment other than land and buildings are stated at cost less depreciation and amortisation and any accumulated impairment losses.

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

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

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their residual value, using the straight line method, as follows:

Leasehold land	Over the terms of the relevant leases
Buildings	Over the shorter of the terms of leases or 50 years
Other property, plant and equipment	3 to 10 years

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

### Club debentures

Club debentures are stated at cost less any identified impairment loss.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

**3. PRINCIPAL ACCOUNTING POLICIES (Continued)****Foreign currencies**

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

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

**Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

**Retirement benefit costs**

Payments to the defined contribution retirement benefits schemes are charged as an expense as they fall due.

**4. TURNOVER**

Turnover represents the amounts received and receivable from the manufacturing of abrasive products, polishing compounds and polishing wheels, trading of polishing materials and polishing equipment and provision of technical consultancy service, net of allowances and returns, during the year.

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and polishing wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service

Segment information about these businesses is presented below.

### Income statement for the year ended 31st December, 2002

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Trading</b> <i>HK\$'000</i>	<b>Technical service</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Turnover</b>				
External sales	57,525	62,381	1,404	121,310
<b>Result</b>				
Segment result	20,765	9,362	1,154	31,281
Other operating income				646
Revaluation decrease on leasehold land and buildings	(158)	(172)	(4)	(334)
Profit from operations				31,593
Finance costs				(2,172)
Profit before taxation				29,421
Taxation				(5,033)
Net profit for the year				24,388

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## Balance sheet at 31st December, 2002

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Trading</b> <i>HK\$'000</i>	<b>Technical service</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Assets</b>				
Segment assets	129,844	37,628	492	167,964
Unallocated corporate assets				24,288
Consolidated total assets				<u>192,252</u>
<b>Liabilities</b>				
Segment liabilities	4,234	2,738	61	7,033
Unallocated corporate liabilities				35,501
Consolidated total liabilities				<u>42,534</u>

## Other information

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Trading</b> <i>HK\$'000</i>	<b>Technical service</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Capital expenditure	871	621	14	1,506
Depreciation and amortisation	4,620	974	22	5,616
Revaluation decrease	158	172	4	334

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Income statement for the year ended 31st December, 2001

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Technical service <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Turnover</b>				
External sales	46,168	71,366	1,530	119,064
<b>Result</b>				
Segment result	15,884	13,851	1,305	31,040
Other operating income				2,064
Revaluation decrease on leasehold land and buildings	(71)	(110)	(2)	(183)
Profit from operations				32,921
Finance costs				(2,258)
Profit before taxation				30,663
Taxation				(4,657)
Net profit for the year				26,006

### Balance sheet at 31st December, 2001

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Technical service <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets</b>				
Segment assets	128,198	39,678	560	168,436
Unallocated corporate assets				44,338
Consolidated total assets				212,774
<b>Liabilities</b>				
Segment liabilities	3,164	6,371	70	9,605
Unallocated corporate liabilities				47,507
Consolidated total liabilities				57,112



# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Other information

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Trading</b> <i>HK\$'000</i>	<b>Technical service</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Capital expenditure	2,106	831	18	2,955
Depreciation and amortisation	4,581	903	19	5,503
Revaluation decrease	71	110	2	183

### Geographical segments

The Group's operations are located in Hong Kong and The People's Republic of China (the "PRC"). The Group's trading divisions are mainly located in Hong Kong. Manufacturing and technical service are carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of customers:

	<b>Sales revenue by geographical market</b>		<b>Contribution to profit from operations</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	<b>70,448</b>	73,764	<b>18,060</b>	18,227
The PRC	<b>44,829</b>	34,037	<b>11,501</b>	9,525
Other Asian countries	<b>3,244</b>	5,918	<b>716</b>	1,606
North America and Europe	<b>1,014</b>	2,611	<b>262</b>	691
Other countries	<b>1,775</b>	2,734	<b>742</b>	991
	<b>121,310</b>	119,064	<b>31,281</b>	31,040
Other operating income			<b>646</b>	2,064
Revaluation decrease on leasehold land and buildings			<b>(334)</b>	(183)
Profit from operations			<b>31,593</b>	32,921

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	87,028	103,023	690	831
The PRC	105,181	109,751	816	2,124
	<b>192,209</b>	<b>212,774</b>	<b>1,506</b>	<b>2,955</b>

## 6. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Interest income from banks	32	27
Other interest income	86	360
Net foreign exchange gains	245	85
Gain on disposal of property, plant and equipment	–	20
Sundry income	283	1,572
	<b>646</b>	<b>2,064</b>

## 7. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	5,616	5,503
Staff costs, including directors' remuneration	15,554	15,799
Auditors' remuneration	852	418
Allowance for doubtful debts	995	–
Loss on disposal of property, plant and equipment	2	–
Cost of inventories recognised as expenses	60,462	61,259

Contributions to retirement benefits schemes of HK\$591,000 (2001: HK\$475,000) are included in staff costs.

**8. FINANCE COSTS**

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	2,172	2,178
Interest on obligations under finance leases	–	80
	<b>2,172</b>	2,258

**9. DIRECTORS' EMOLUMENTS**

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees	–	–
Other emoluments:		
Salaries and other benefits	2,980	2,829
Bonus	–	223
Retirement benefits scheme contributions	222	221
	<b>3,202</b>	3,273
Total	<b>3,202</b>	3,273

During the year, no remunerations were paid or payable to independent non-executive directors of the Company.

The aggregate emoluments of each of the directors for both years were within the emoluments band ranging from nil to HK\$1,000,000.

No director has waived any remunerations during the year.

**10. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, four (2001: four) were directors of the Company, details of whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining one (2001: one) highest paid individual are as follows:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	<b>364</b>	618
Retirement benefits scheme contributions	<b>17</b>	17
	<b>381</b>	635

The aggregate emoluments of the remaining highest paid individual for both years were within the emoluments band ranging from nil to HK\$1,000,000.

During the year, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

**11. TAXATION**

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	<b>5,210</b>	4,603
(Over) underprovision in prior year	<b>(2)</b>	54
	<b>5,208</b>	4,657
Deferred taxation ( <i>note 21</i> )	<b>(175)</b>	–
	<b>5,033</b>	4,657

Hong Kong Profits Tax is calculated at 16% (2001: 16%) on the estimated assessable profit for the year.

In accordance with the relevant tax laws and regulations of the PRC, the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. No provision for the PRC EIT has been made in the financial statements as the subsidiary is within the tax exemption period.

**12. DIVIDENDS**

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation	55,000	5,000
Proposed final dividend	9,000	–
Proposed special dividend	3,000	–
	<b>67,000</b>	5,000

The final dividend of HK\$0.01125 (2001: Nil) and the special dividend of HK\$0.00375 (2001: Nil) have been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

**13. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the net profit for the year of HK\$24,388,000 (2001: HK\$26,006,000) and on the weighted average number of 696,438,356 (2001: 680,000,000) ordinary shares in issue during the year on the assumption that the Group Reorganisation and capitalisation issue had been completed on 1st January, 2001.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Yachts HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2002	103,020	18,081	9,387	4,326	1,317	136,131
Additions	346	296	782	82	–	1,506
Disposals	(84)	(14)	–	–	–	(98)
Decrease in revaluation	(1,342)	–	–	–	–	(1,342)
At 31st December, 2002	101,940	18,363	10,169	4,408	1,317	136,197
Comprising:						
At cost	–	18,363	10,169	4,408	1,317	34,257
At valuation 2002	101,940	–	–	–	–	101,940
	101,940	18,363	10,169	4,408	1,317	136,197
ACCUMULATED DEPRECIATION AND AMORTISATION						
At 1st January, 2002	–	6,983	6,111	3,068	1,053	17,215
Provided for the year	2,046	1,749	1,001	688	132	5,616
Eliminated on disposals	–	(12)	–	–	–	(12)
Eliminated on revaluation	(2,046)	–	–	–	–	(2,046)
At 31st December, 2002	–	8,720	7,112	3,756	1,185	20,773
NET BOOK VALUES						
At 31st December, 2002	101,940	9,643	3,057	652	132	115,424
At 31st December, 2001	103,020	11,098	3,276	1,258	264	118,916

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

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
The carrying amount of the leasehold land and building comprises:		
Properties held under medium-term leases:		
– in Hong Kong	<b>14,210</b>	14,870
– elsewhere in the PRC	<b>87,730</b>	88,150
	<b>101,940</b>	103,020

The leasehold land and buildings of the Group were revalued by Messrs. Castores Magi Surveyors Limited, an independent firm of registered professional surveyors, at 31st December, 2002 on an open market existing use basis. The revaluation gave rise to the revaluation surplus of HK\$704,000 of which approximately HK\$1,038,000 has been credited to the property revaluation reserve and HK\$334,000 has been charged to the income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Cost	<b>99,204</b>	98,942
Accumulated depreciation and amortisation	<b>(10,101)</b>	(8,057)
Net book values	<b>89,103</b>	90,885

**15. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY 2002 HK\$'000</b>
Unlisted shares, at cost	118,850
Amount due from a subsidiary	7,947
	<b>126,797</b>

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Company as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation as set out in note 1.

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment. The Company agreed not to demand repayment within the next twelve months from the balance sheet date, and accordingly, the amount was shown as non-current.

Particulars of the Company's principal subsidiaries at 31st December, 2002 are set out in note 30.

**16. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2002 HK\$'000</b>	2001 HK\$'000
Raw materials	5,018	4,733
Work in progress	109	261
Finished goods	15,205	12,495
	<b>20,332</b>	17,489

Included in inventories are raw materials of HK\$584,000 (2001: HK\$672,000) carried at net realisable value.



**17. DEBTORS, DEPOSITS AND PREPAYMENTS**

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK\$31,858,000 (2001: HK\$31,566,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2002 HK\$'000	2001 HK\$'000
Within 30 days	16,106	16,322
Between 31 to 60 days	7,489	7,091
Between 61 to 90 days	5,293	4,481
Over than 90 days	2,970	3,672
	<b>31,858</b>	31,566
Other debtors, deposits and prepayments	3,895	1,846
	<b>35,753</b>	33,412

**18. AMOUNT DUE FROM FORMER ULTIMATE HOLDING COMPANY**

The amount due from former ultimate holding company was unsecured, interest free and was fully repaid during the year ended 31st December, 2002.

**19. CREDITORS AND ACCRUALS**

The aged analysis of the trade creditors of HK\$6,975,000 (2001: HK\$9,623,000) which are included in the Group's creditors and accruals is as follows:

	2002 HK\$'000	2001 HK\$'000
Within 30 days	2,991	6,190
Between 31 to 60 days	1,657	1,970
Between 61 to 90 days	1,399	1,446
Over than 90 days	928	17
	<b>6,975</b>	9,623
Other creditors and accruals	3,552	2,784
	<b>10,527</b>	12,407

**20. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings comprise:		
Bank overdrafts	659	2,842
Trust receipt loans	1,030	128
Other bank loans	24,993	36,106
	<b>26,682</b>	39,076
Analysed as:		
Secured	24,340	39,076
Unsecured	2,342	–
	<b>26,682</b>	39,076
The maturity of the above loans and overdrafts is as follows:		
On demand or within one year	11,729	33,019
More than one year, but not exceeding two years	8,411	6,057
More than two years, but not exceeding five years	6,542	–
	<b>26,682</b>	39,076
<i>Less: amounts due within one year shown under current liabilities</i>	<b>(11,729)</b>	(33,019)
Amounts due after one year	<b>14,953</b>	6,057

**21. DEFERRED TAXATION**

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Balance at beginning of the year	429	429
Release to current taxation ( <i>note 11</i> )	(175)	–
Balance at end of the year	254	429

At the balance sheet date, the major component of the deferred tax liabilities is attributable to the tax effect of timing differences arising from accelerated depreciation allowance.

There was no significant unprovided deferred taxation during the year and at the balance sheet date.

Deferred tax has not been provided on the revaluation increase or decrease arising on the revaluation of land and buildings as profit arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

**22. SHARE CAPITAL**

	Number of ordinary shares of HK\$0.01 each	Nominal value HK\$'000
<i>Authorised:</i>		
On incorporation	40,000,000	400
Increase in authorised share capital	9,960,000,000	99,600
At 31st December, 2002	10,000,000,000	100,000
<i>Issue and fully paid:</i>		
Allotted and issued nil paid on 13th March, 2002	1	–
Issue of shares upon the Group Reorganisation	999,999	10
Issue of new shares	120,000,000	1,200
Capitalisation issue	679,000,000	6,790
At 31st December, 2002	800,000,000	8,000

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 22. SHARE CAPITAL (Continued)

The following changes in the share capital of the Company took place during the period from 27th February, 2002 (date of incorporation) to 31st December, 2002:

- (a) The Company was incorporated on 27th February, 2002 with an authorised share capital of HK\$400,000 divided into 40,000,000 ordinary shares of HK\$0.01 each, one of which was allotted and issued nil paid on 13th March, 2002.
- (b) Pursuant to written resolutions of all shareholders of the Company passed on 23rd October, 2002:
  - (i) the authorised share capital of the Company was increased from HK\$400,000 to HK\$100,000,000 by the creation of an additional 9,960,000,000 new ordinary shares of HK\$0.01 each. The new shares rank *pari passu* in all respects with the existing shares;
  - (ii) as consideration for the acquisition of the entire issued share capital of PME International (BVI) Company Limited, the then holding company of the Group, the directors were authorised to allot and issue an aggregate of 999,999 ordinary shares and together with the 1 ordinary share, which was allotted and issued nil paid on 13th March, 2002, credited as fully paid under the Group Reorganisation which took place on 23rd October, 2002;
  - (iii) the placing and public offer of 120,000,000 new shares of the Company of HK\$0.01 each at a price of HK\$0.25 per share, were approved and, the directors were authorised to allot and issue the new shares in connection with the Placing and Public Offer; and
  - (iv) the directors were also authorised to allot and issue a total of 679,000,000 new shares credited as fully paid at par to the holders of shares on the register of members at the close of business on 23rd October, 2002 in proportion to their then existing holding by way of capitalisation of the sum of HK\$6,790,000 standing to the credit of the share premium account of the Company following the Placing and Public Offer mentioned in (iii) above.

On 12th November, 2002, the Company completed the issue, allotment and despatchment of 120,000,000 shares of the Company of HK\$0.01 each in connection with the Placing and Public Offer. The above resolutions became unconditional on 13th November, 2002 when the Company's shares were listed on the Main Board of the Stock Exchange. The proceeds from the shares issued above shall be used for financing the Group's expansion of the sales and marketing network and set up representative offices in the PRC, improvement of the production facilities and the technical application centre of the Group, reduction of the Group's bank borrowings and use as general working capital for the Group.

The share capital of 31st December, 2001 as shown in the consolidated balance sheet represented the nominal value of the issued share capital of PME International (BVI) Company Limited, the then holding company of the Group, acquired by the Company pursuant to the Group Reorganisation.

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 23. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 23rd October, 2002, the board of directors of the Company may, at its discretion, grant options to full-time employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein, and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK\$1 is payable on acceptance of each grant.

No share options have been granted under the scheme since its adoption.

## 24. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY			
Premium arising on Group Reorganisation	118,840	–	118,840
Shares issued at premium on Placing and Public Offer	28,800	–	28,800
Issue of shares arising from capitalisation of share premium	(6,790)	–	(6,790)
Share issue expenses	(6,370)	–	(6,370)
Loss for the year	–	(78)	(78)
At 31st December, 2002	134,480	(78)	134,402

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$134,402,000.

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 25. CONTINGENT LIABILITIES

At 31st December, 2002, the Company had contingent liabilities of HK\$25,022,000 in respect of the extent of banking facilities utilised by subsidiaries in which corporate guarantees were given by the Company to certain banks.

## 26. PLEDGE OF ASSETS

At 31st December, 2002, leasehold land and buildings with aggregate carrying value of HK\$101,940,000 (2001: HK\$103,020,000) were pledged to banks to secure banking facilities granted to the Group.

## 27. CAPITAL COMMITMENTS

At 31st December, 2002, the Group had capital commitment of HK\$37,000 (2001: HK\$118,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

## 28. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the income statement represents contributions payable to the MPF Scheme by the Group.

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

# Notes to The Financial Statements (Continued)

For the year ended 31st December, 2002

## 29. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had the following transactions with related companies:

Nature of transactions	Name of related company	Notes	2002	2001
			HK\$'000	HK\$'000
Sales to	Kansource Limited	(i)	1	160
Management fee income from		(ii)	–	280
Purchases from	Fulltrade China Limited	(i)	–	180
Sales to	New Happy Multinational	(i)	–	3,105
Purchases from	Limited	(i)	–	28
Sales to	Panical Investment Limited	(i)	–	128
Purchases from		(i)	–	268

Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, the directors and shareholders of the Company, have beneficial interests in the above related companies, except for Fulltrade China Limited in which Messrs. Cheng Kwok Woo and Cheng Kwong Cheong have beneficial interests. These related party transactions ceased during the year ended 31st December, 2002 and would be discontinued thereafter.

Notes:

- (i) Sales and purchases are based on cost plus a percentage of profit mark-up.
- (ii) Management fee income was charged based on terms agreed by the parties concerned.
- (b) Certain directors had provided unlimited personal guarantees to banks for banking facilities granted to the Group at nil consideration. These personal guarantees have been released and replaced by the corporate guarantees provided by the Company after the listing of the shares of the Company on the Stock Exchange.
- (c) The Group had provided an unlimited corporate guarantee to a bank for banking facilities granted to Panical Investment Limited at nil consideration. The guarantee has been released before the listing of the shares of the Company on the Stock Exchange.
- (d) A property owned by a related company had been pledged to a bank for banking facilities granted to the Group at nil consideration. The pledge had been released and replaced by the corporate guarantees provided by the Company after the listing of the shares of the Company on the Stock Exchange.

**30. PARTICULARS OF PRINCIPAL SUBSIDIARIES**

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31st December, 2002 are as follows:

<b>Name of subsidiary</b>	<b>Place of incorporation/ registration</b>	<b>Issued and fully paid share capital/ registered capital (notes a and b)</b>	<b>Principal activities</b>
Fook Cheong Ho International (BVI) Limited	British Virgin Islands	Ordinary shares US\$3	Investment holding, trading of polishing materials and equipment and provision of technical consultancy service
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK\$300,000 (note c) Ordinary shares HK\$30	Trading of polishing materials and equipment
PME Abrasive Products Limited	Hong Kong	Ordinary shares HK\$1,000,000	Trading of abrasive materials
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US\$30,000	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK\$19,200,000 (note c) Ordinary shares HK\$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co., Limited	Hong Kong	Ordinary shares HK\$60,000	Trading of polishing equipment
Unison Base Investment Limited	Hong Kong	Ordinary shares HK\$1,000,000	Investment holding and property investment
Dongguan PME Polishing Materials & Equipments Co., Ltd.	PRC	Registered capital HK\$40,000,000 (note d)	Manufacturing and trading of polishing materials



**30. PARTICULARS OF PRINCIPAL SUBSIDIARIES** *(Continued)**Notes:*

- (a) The Company directly holds the entire interest in PME International (BVI) Company Limited. The interests of all other subsidiaries are indirectly held by the Company.
- (b) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all the principal subsidiaries operate principally in Hong Kong.
- (c) The 5% non-voting deferred shares of HK\$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK\$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.
- (d) Established as a wholly foreign owned enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31st December, 2002 or at any time during the year.