

# NOTES TO FINANCIAL STATEMENTS

31 December 2002

## 1. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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The following new and revised Hong Kong Statements of Standard Accounting Practice (“SSAPs”) are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 34: “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 23 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of the SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are translated at weighted average exchange rates for the year, rather than translated at the applicable exchange rates ruling at the balance sheet date as was previously required. Further details of the impact of this SSAP are described in the accounting policy for “Foreign currencies” in note 2 to the financial statements below.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on pages 24 and 25 of the financial statements and the notes thereto have been revised in accordance with the new requirements. The cash flows of the Company’s overseas subsidiaries are now translated using the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas before, they were translated at the applicable exchange rates ruling at the balance sheet date. Further details of the impact of this change are described in the accounting policy for “Foreign currencies” as set out in note 2 to the financial statements.

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## 1. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option schemes, as detailed in note 25 to the financial statements. These disclosures are similar to those previously required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets and investment properties, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective date of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

#### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition. Goodwill arising during the year ended 31 December 2001 from the acquisition of a subsidiary, in the amount of HK\$76,000, was directly written off to the profit and loss account for that year, in view of the immateriality of the amount involved.

#### Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal or retirement of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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### Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10 – 12 years
Furniture, fixtures and office equipment	5 – 10 years
Motor vehicles	5 – 10 years

Estimated residual values are determined as 10% of the original purchase cost of each individual underlying asset.

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Inventories**

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

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### **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 profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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### Related parties

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

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

### Research and development costs

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

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, 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 subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserves.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

In previous years, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates at the balance sheet date. The change in the treatment of such items in the current year has, however, had no significant effect on these financial statements.

### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Group's subsidiaries in the People's Republic of China (the "PRC") are required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

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### 3. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

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The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

The directors consider Landmark Worldwide Holdings Limited, a company incorporated in the British Virgin Islands, to be the Company's ultimate holding company at the balance sheet date.

The Group had the following transactions with related parties in addition to those disclosed elsewhere in the financial statements:

- (i) During the year and as at the balance sheet date, the Group made an advance to an associate, further details of which are set out in note 15 to the financial statements.
- (ii) During the year, the Group paid rental expenses of approximately HK\$300,000 to a minority shareholder of a subsidiary of the Company. The rental expenses were determined by the directors of the Group and the minority shareholder with reference to the then prevailing market conditions.
- (iii) During the year, the Group paid subcontracting fee of approximately HK\$302,000 to 福建石獅通達電機有限公司, a company owned as to 7.5% by Mr. Wang Ya Nan, a director of the Company. The subcontracting fee was determined with reference to the actual expenses incurred.
- (iv) During the year ended 31 December 2001, certain of the Group's land and buildings in the PRC were disposed of to a minority shareholder of a subsidiary at a consideration of HK\$11,170,000. The directors consider that the consideration approximated the open market value of the land and buildings at the date of the disposal.

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### 4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the electronic products segment is a supplier of resistors and other electronic components mainly for use in the manufacture of various electrical and electronic household appliance products;
- (b) the electrical accessories segment produces accessories for electrical appliance products;
- (c) the ironware products segment is a supplier of metallic casings and other ironware parts for electrical and electronic appliances;
- (d) the electrical appliances segment engages in the trading of electrical appliances;
- (e) the optic fibre cable and digital fibre cable products segment is a supplier of optic fibre and digital fibre products, the essential components of telecommunication equipment and electrical appliances; and
- (f) the corporate and others segment comprises the Group's management services business, and corporate income and expense items.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Electronic products		Electrical accessories		Ironware products		Electrical appliances		Optic fibre and digital fibre cable products		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000	H K\$'000
Segment revenue:																
Sales to external customers	28,985	20,542	96,703	62,814	101,948	90,677	6,419	24,092	20,986	15,060	1,220	2,799	-	-	256,261	215,984
Intersegment sales	55	8,886	810	8,970	-	7,017	-	-	-	-	-	-	(865)	(24,873)	-	-
Total	29,040	29,428	97,513	71,784	101,948	97,694	6,419	24,092	20,986	15,060	1,220	2,799	(865)	(24,873)	256,261	215,984
Segment results	2,757	3,536	15,288	25,049	11,820	14,245	56	147	(4,125)	729	(9,379)	(9,897)	8,190	2,153	24,607	35,962
Unallocated income															2,067	2,655
Profit from operating activities															26,674	38,617
Finance costs															(4,467)	(4,054)
Share of profit of an associate															2,127	240
Profit before tax															24,334	34,803
Tax															(2,793)	(4,411)
Profit before minority interests															21,541	30,392
Minority interests															1,473	(306)
Net profit from ordinary activities attributable to shareholders															23,014	30,086

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group	Electronic products		Electrical accessories		Ironware products		Electrical appliances		Optic fibre and digital fibre cable products		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	49,781	43,682	150,333	115,161	151,884	113,404	6,375	183,355	42,559	49,967	16,127	3,577	(29,837)	(166,777)	387,222	342,369
Interest in an associate	-	-	-	-	-	-	-	-	-	-	3,363	2,434	-	-	3,363	2,434
Total assets	49,781	43,682	150,333	115,161	151,884	113,404	6,375	183,355	42,559	49,967	19,490	6,011	(29,837)	(166,777)	390,585	344,803
Segment liabilities	37,608	26,008	2,855	78,660	21,123	78,292	5,504	71,818	15,033	16,573	3,083	2,818	29,837	(166,777)	115,043	107,392
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,317	54,727
Total liabilities															186,360	162,119
Other segment information:																
Depreciation	881	992	3,603	2,922	3,321	2,248	-	5	1,986	948	486	125	-	-	10,277	7,240
Deficit on revaluation	-	-	-	-	-	-	-	-	-	-	199	150	-	-	199	150
Other non-cash expenses	-	-	-	504	-	80	-	-	-	124	-	13	-	-	-	721
Capital expenditure:																
Additions	281	173	17,228	9,634	47,809	24,107	3	-	1,597	3,126	15,387	156	(27,999)	-	54,306	37,196
Arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	29,181	-	-	-	-	-	29,181
	281	173	17,228	9,634	47,809	24,107	3	-	1,597	32,307	15,387	156	(27,999)	-	54,306	66,377

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## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

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

Group	PRC											
	Hong Kong		Mainland		Southeast Asia		Australia		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	12,936	9,054	215,238	182,590	8,598	218	10,304	24,092	9,185	30	256,261	215,984
Segment assets	24,384	30,864	354,339	297,732	741	115	8,923	13,544	2,198	114	390,585	342,369
Other segment information:												
Capital expenditure												
Additions	15,460	156	38,840	37,040	-	-	-	-	6	-	54,306	37,196
Arising on acquisition of a subsidiary	-	-	-	29,181	-	-	-	-	-	-	-	29,181
	15,460	156	38,840	66,221	-	-	-	-	6	-	54,306	66,377

## 5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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### 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	200,655	157,439
Staff costs		
Salaries and wages (excluding directors' remuneration – note 7)	23,677	13,549
Pension scheme contributions (excluding directors' remuneration – note 7)	63	55
Less: Amounts included in research and development costs	(792)	(339)
	<b>22,948</b>	13,265
Minimum lease payments under operating leases of land and buildings	794	–
Auditors' remuneration	857	800
Depreciation	10,277	7,240
Research and development costs	3,927	2,320
Write off of goodwill on acquisition of a subsidiary*	–	76
Deficit on revaluation of leasehold land and buildings*	144	150
Deficit on revaluation of investment properties*	55	–
Amortisation of prepaid rental	13	–
Provisions for bad and doubtful debts	–	584
Loss on disposal of fixed assets	–	280
Gain on disposal of a subsidiary	(2,190)	–
Interest income	(132)	(1,676)

\* These amounts are included in "Other operating expenses" on the face of the consolidated profit and loss account.

Cost of inventories sold includes HK\$28,649,000 (2001: HK\$18,501,000 relating to direct staff costs, operating lease rentals on land and buildings, amortisation of prepaid rental, and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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## 7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	240	240
	240	240
Other emoluments paid and payable to executive directors:		
Basic salaries, housing, other allowances and benefits in kind	4,200	4,200
Pension scheme contributions	208	231
	4,408	4,431
	4,648	4,671

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	1	1
	8	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. During the year, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

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### 7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (continued)

#### Five highest paid employees

The five highest paid employees during the year included five (2001: five) directors, details of whose remuneration are set out above.

### 8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest expenses on bank loans, overdrafts and other loans wholly repayable within five years	4,467	4,054

### 9. TAX

	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong	–	3
Elsewhere	4,360	4,408
Overprovision in prior years	(1,830)	–
	2,530	4,411
Share of tax attributable to an associate	263	–
	2,793	4,411

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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## 9. TAX (continued)

Four of the Group's subsidiaries operating in the PRC are exempted from income tax for two years from their first profit making year and are eligible for a 50% relief from income tax for the following three years (the "tax holiday") under the Income Tax Law. One of the Group's subsidiaries operating in the PRC is in the process of applying for the approval of its tax holiday.

The tax holiday for three of the PRC subsidiaries had been expired in prior years. Taxes on the assessable profits of these three subsidiaries have been calculated at the applicable rates of tax prevailing in the PRC during the year. No provision for income tax has been made for the remaining two PRC subsidiaries because they did not generate any assessable profits for the year.

No deferred tax has been provided by the Company and the Group because there were no significant timing differences at the balance sheet date (2001: Nil).

## 10. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$54,188,000 (HK\$25,289,000).

## 11. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Proposed final – HK0.35 cent (2001:Nil) per ordinary share	10,570	–
Adjustment to 2000 final dividend	–	160
	<b>10,570</b>	<b>160</b>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The adjustment to the 2000 final dividend of HK\$160,000 represents a portion of the 2000 final dividend declared on the shares issued pursuant to the exercise, subsequent to the approval of the Company's audited financial statements for the preceding year ended 31 December 2000, of options to subscribe for shares in the Company. These new shares were also entitled to the dividend for the period concerned.

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### 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$23,014,000 (2001: HK\$30,086,000), and the weighted average of 3,020,000,000 (2001: 3,013,095,890) ordinary shares in issue during the year.

A diluted earnings per share amounts for the year has not been shown as there were no potential dilutive ordinary shares in existence during the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 was based on the net profit attributable to shareholders for the year of HK\$30,086,000. The weighted average number of ordinary shares used in the calculation is the 3,013,095,890 ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average of 145 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all shares options during that year.

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## 13. FIXED ASSETS

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Group	Investment properties HK\$'000	Leasehold land and buildings in Hong Kong HK\$'000	Leasehold land and buildings elsewhere in the PRC HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	-	1,800	57,693	327	72,079	3,129	5,032	21,645	161,705
Additions	-	14,193	-	859	17,581	2,116	1,231	18,326	54,306
Transfers	1,755	(1,800)	-	-	5	-	-	(5)	(45)
Disposal of a subsidiary	-	-	-	-	(1,432)	(420)	(132)	-	(1,984)
Disposals	-	-	-	-	(1,254)	(449)	(394)	-	(2,097)
Deficit on revaluation	(55)	(393)	-	-	-	-	-	-	(448)
At 31 December 2002	1,700	13,800	57,693	1,186	86,979	4,376	5,737	39,966	211,437
Accumulated depreciation:									
At beginning of year	-	-	6,755	327	14,679	1,486	2,790	-	26,037
Provided for the year	-	294	2,084	172	6,644	509	574	-	10,277
Write back upon transfer	-	(45)	-	-	-	-	-	-	(45)
Disposal of a subsidiary	-	-	-	-	(863)	(260)	(118)	-	(1,241)
Disposals	-	-	-	-	(849)	(288)	(202)	-	(1,339)
Reversal upon revaluation	-	(249)	-	-	-	-	-	-	(249)
At 31 December 2002	-	-	8,839	499	19,611	1,447	3,044	-	33,440
Net book value:									
At 31 December 2002	1,700	13,800	48,854	687	67,368	2,929	2,693	39,966	177,997
At 31 December 2001	-	1,800	50,938	-	57,400	1,643	2,242	21,645	135,668

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### 13. FIXED ASSETS (continued)

An analysis of the cost or valuation of the fixed assets of the Group is as follows:

Group	Investment properties HK\$'000	Leasehold land and buildings in Hong Kong HK\$'000	Leasehold land and buildings elsewhere in the PRC HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At cost	-	-	57,693	1,186	87,071	4,284	5,737	39,966	195,937
At 31 December 2002 valuation	1,700	13,800	-	-	-	-	-	-	15,500
At 31 December 2002	1,700	13,800	57,693	1,186	87,071	4,284	5,737	39,966	211,437

During the year, the directors of the Company changed the intended use of certain of the Group's properties. The related leasehold land and buildings situated in Hong Kong were transferred at their then carrying value of HK\$1,755,000 to investment properties. The investment properties are leased to independent third parties under operating leases, further details of which are included in note 29 to the financial statements.

The Group's leasehold land and buildings situated in Hong Kong were revalued at the balance sheet date by CS Surveyors Limited ("CS"), an independent firm of professionally qualified valuers, at an open market value of HK\$13,800,000 based on their existing use. A deficit of HK\$144,000 arising therefrom has been charged to the consolidated profit and loss account (note 6).

At 31 December 2002, the Group's investment properties situated in Hong Kong were revalued on an open market, existing use basis by CS, at HK\$1,700,000. A deficit of HK\$55,000 arising therefrom has been charged to the consolidated profit and loss account (note 6).

The Group's leasehold land and buildings situated in Hong Kong at revalued amount of HK\$13,800,000 are held under long term leases. The Group's leasehold land and buildings situated elsewhere in the PRC and investment properties situated in Hong Kong are held under medium term leases.

# NOTES TO FINANCIAL STATEMENTS

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## 13. FIXED ASSETS (continued)

In respect of the Group's leasehold land and buildings situated in Shishi City, Fujian, in the PRC, the Group is in the process of applying for the transfer of the Certificates for the Use of State-owned Land (the "New Certificates"). Except for the payment of certain nominal fees required to obtain the New Certificates, the Group has fully settled the charges required to obtain the land use rights of the land and the full rights to the buildings, including the land requisition charge, agricultural land occupation tax, land use fee, ancillary facilities charge and deed tax. As confirmed by legal opinions issued by the Group's PRC lawyers, all of the sale and purchase agreements relating to the purchases of these leasehold land and buildings are legally valid under the laws of the PRC and the Group has the entitlement to obtain the real estate titles from the relevant PRC authority. Moreover, the management of the Group had a meeting with the responsible personnel of 石獅市人民政府國土建設局 in March 2003, who confirmed that all of the approvals from 石獅市人民政府國土建設局 had been given. The Group is waiting for the approval from 中華人民共和國國土資源部 in Beijing. The directors expect to reflect the results of the revaluation for the PRC leasehold land and buildings in the Group's financial statements when the relevant New Certificates are obtained and any current uncertainties relating to title are removed.

Had all of the Group's leasehold land and buildings situated in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$13,944,000 (2001: HK\$4,133,000).

The Group's leasehold land and buildings and investment of properties in Hong Kong have been pledged as security against banking facilities granted to the Group (note 24).

## 14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	79,379	79,379

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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### 14. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
<b>Directly held</b>					
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US\$10,000	100	100	Investment holding
<b>Indirectly held</b>					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK\$880,000	100	100	Investment holding and raw material sourcing
Ever Target Limited	Hong Kong	Ordinary HK\$4	100	100	Investment holding and raw material sourcing
Tongda Group International Limited	Hong Kong	Ordinary HK\$2	100	100	Investment holding
Tongda Optical Fibre Technology Limited	Hong Kong	Ordinary HK\$100,000	86.67	86.67	Investment holding

## NOTES TO FINANCIAL STATEMENTS

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## 14. INVESTMENTS IN SUBSIDIARIES (continued)

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Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
<b>Indirectly held (continued)</b>					
Tongda Electrics Company Limited, Shishi (Note 1)	People's Republic of China ("PRC")	Registered RMB5,813,685	100	100	Manufacture and sale of accessories for electrical appliance products
Tong Da Metals Company Limited, Shishi City, Fujian (Note 2)	PRC	Registered RMB8,023,560	100	100	Manufacture and sale of ironware products
Tongda Electronic Company Limited, Shishi City (Note 3)	PRC	Registered RMB10,000,000	100	100	Manufacture and sale of resistors and other electronic products
Xiamen Optic Conduct Cable Company Limited (Note 4)	PRC	Registered RMB45,741,029	75	75	Manufacture and sale of optic fibre cable and digital fibre cable products

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### 14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
<b>Indirectly held (continued)</b>					
Tongda Ironware (Shenzhen) Company Limited ( <i>Note 5</i> )	PRC	Registered HK\$18,000,000	100	–	Manufacture and sale of ironware products
Tongda (Shenzhen) Company Limited	Hong Kong	Ordinary HK\$10,000	100	100	Investment holding
Tongda Overseas Company Limited	BVI/PRC	Ordinary US\$1	100	100	Trading of electrical appliance products
Taxdeal Properties Limited	BVI/PRC	Ordinary US\$1	100	100	Provision of technical support services
Tabcombe Consultants Limited	BVI/PRC	Ordinary US\$1	100	100	Provision of quality control services
Tongda Overseas Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	100	–	Trading of electrical appliance products
Laitverne Management Limited ( <i>Note 6</i> )	BVI/PRC	Ordinary US\$1	–	100	Provision of marketing services and trading of accessories products

# NOTES TO FINANCIAL STATEMENTS

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## 14. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

1. Tongda Electrics Company Limited, Shishi is a wholly foreign-owned enterprise with an operating period of 15 years commencing from 12 February 1993.
2. Tong Da Metals Company Limited, Shishi City, Fujian is a wholly foreign-owned enterprise with an operating period of 15 years commencing from 29 October 1992.
3. Tongda Electronic Company Limited, Shishi City is a wholly foreign-owned enterprise with an operating period of 30 years commencing from 20 December 1998.
4. Xiamen Optic Conduct Cable Company Limited is an equity joint venture established by the Group and a joint venture partner in the PRC for a period of 15 years commencing from 10 November 1993.
5. Tongda Ironware (Shenzhen) Company Limited is a wholly foreign-owned enterprise with an operating period of 30 years commencing from 11 April 2002.
6. Laitverne Management Limited was disposed of by the Group during the year. Further details of this disposal are included in note 27(a) to the financial statements.

## 15. INTEREST IN AN ASSOCIATE

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets/(liabilities)	696	(168)
Due from an associate	2,667	2,602
	<b>3,363</b>	2,434

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
Meijitsu Tongda (HK) Company Limited	Incorporated	Hong Kong/PRC	50	Manufacture and sale of screen-printing products

## NOTES TO FINANCIAL STATEMENTS

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### 15. INTEREST IN AN ASSOCIATE (continued)

The balance with an associate is unsecured, interest-free and has no fixed terms of repayment.

The directors of the Company do not intend to demand settlement of the amount due until the associate has funds available surplus to those necessary to provide adequate working capital for financing its operating. Accordingly, the amount is classified as a long term receivable.

### 16. PREPAID RENTAL

	Group	
	2002 HK\$'000	2001 HK\$'000
Costs:		
Additions during the year	3,510	–
Amortisation:		
Amortised during the year	(13)	–
Net book value:		
At end of year	3,497	–

The prepaid rental represents rental for two pieces of land located in the PRC. The Group has been granted the right to use the land for a period of 50 years.

The prepaid rental is amortised on a straight-line basis over the lease term of 50 years.

### 17. LONG TERM DEPOSITS

Long term deposits represent deposits paid for the acquisition of certain fixed assets.

### 18. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	31,420	17,957
Work in progress	3,661	3,522
Finished goods	11,417	8,990
	46,498	30,469

At the balance sheet date, no inventories were stated at net realisable value (2001: HK\$1,194,000).

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## 19. TRADE AND BILLS RECEIVABLES

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	Group	
	2002 HK\$'000	2001 HK\$'000
Trade receivables	110,686	92,795
Bills receivable	1,052	13,673
	<b>111,738</b>	106,468

An aged analysis of the Group's trade and bills receivables as at 31 December 2002 is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 3 months	87,098	84,810
4 to 6 months	20,382	14,496
7 to 9 months	4,554	4,062
10 to 12 months	1,498	1,220
More than 1 year	909	4,461
	<b>114,441</b>	109,049
Provisions for bad and doubtful debts	(2,703)	(2,581)
	<b>111,738</b>	106,468

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship.

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### 20. CASH AND CASH EQUIVALENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	33,705	41,159
Time deposits	820	21,237
	<b>34,525</b>	<b>62,396</b>

### 21. TRADE AND BILLS PAYABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Trade payables	31,491	27,988
Bills payable	17,674	1,713
	<b>49,165</b>	<b>29,701</b>

An aged analysis of the Group's trade and bills payables as at 31 December 2002 is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 3 months	43,405	24,223
4 to 6 months	4,091	3,812
7 to 9 months	852	351
10 to 12 months	244	119
More than 1 year	573	1,196
	<b>49,165</b>	<b>29,701</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2002

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## 22. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

## 23. INTEREST-BEARING BANK BORROWINGS

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans:		
Secured	7,598	54,727
Unsecured	62,204	–
	<b>69,802</b>	54,727
Bank loans, repayable:		
Within one year	62,948	54,727
In the second year	763	–
In the third to fifth years, inclusive	2,413	–
Beyond five years	3,678	–
	<b>69,802</b>	54,727
Portion classified as current liabilities	<b>(62,948)</b>	(54,727)
Non-current portion	<b>6,854</b>	–

## 24. BANKING FACILITIES

As at 31 December 2002, the Group's banking facilities were supported by:

- (i) legal charges over leasehold land and buildings and investment properties situated in Hong Kong owned by the Group (note 14);
- (ii) the pledged of bank deposits of approximately HK\$2,745,000; and
- (iii) corporate guarantees from the Company and certain of its subsidiaries.

## NOTES TO FINANCIAL STATEMENTS

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### 25. SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid:		
3,020,000,000 ordinary shares of HK\$0.01 each	30,200	30,200

The following changes in the Company's authorised and issued share capital took place during the year ended 31 December 2001:

- (i) On 25 April 2001, options to subscribe for 2,000,000 ordinary shares in the Company were granted. On 7 May 2001, all of these share options were exercised, which resulted in the issue and allotment of 2,000,000 new ordinary shares in the Company.
- (ii) On 30 October 2001, each of the then existing issued and unissued shares of HK\$0.10 each in the Company was sub-divided into 10 shares (the "Sub-divided shares") of HK\$0.01 each. As a result of the sub-division, on the basis of the 302,000,000 shares previously in issue, a total of 3,020,000,000 Sub-divided shares were created pursuant to the share sub-division with each of which ranking pari passu with one another in all respect regarding the shareholders' rights attached thereto.

#### Share option scheme

Pursuant to an ordinary resolution passed at the shareholders' meeting of the Company held on 10 June 2002, a new share option scheme of the Company (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 7 December 2000 (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. As at 31 December 2002, there were no outstanding share options under the Old Scheme. The New Scheme became effective on 24 June 2002, and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include all directors and any full-time employee of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.

# NOTES TO FINANCIAL STATEMENTS

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## 25. SHARE CAPITAL (continued)

### Share option scheme (continued)

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 30% of the shares of the Company in issue. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing an aggregate value of over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the official, closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK\$5 million, are subject to shareholders' approval in a general meeting.

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and the amount payable on acceptance of an offer is HK\$1.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

Up to the date of this report, no share options have been granted by the Company under the New Scheme.

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## 26. RESERVES

	Share premium account HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>Group</b>					
At 1 January 2001	31,241	993	(1,003)	80,206	111,437
Arising on exercise of options to subscribe for new shares in the Company	1,400	–	–	–	1,400
Net profit attributable to shareholders for the year	–	–	–	30,086	30,086
Adjustment to 2000 final dividend – note 11	–	–	–	(160)	(160)
At 31 December 2001 and 1 January 2002	32,641	993	(1,003)	110,132	142,763
Net profit attributable to shareholders for the year	–	–	–	23,014	23,014
Proposed final dividend – note 11	–	–	–	(10,570)	(10,570)
At 31 December 2002	32,641	993	(1,003)	122,576	155,207
The reserves are retained as follows:					
Company and subsidiaries	32,641	993	(1,003)	121,885	154,516
An associate	–	–	–	691	691
At 31 December 2002	32,641	993	(1,003)	122,576	155,207
Company and subsidiaries	32,641	993	(1,003)	110,305	142,936
An associate	–	–	–	(173)	(173)
At 31 December 2001	32,641	993	(1,003)	110,132	142,763

## NOTES TO FINANCIAL STATEMENTS

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## 26. RESERVES (continued)

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	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>Company</b>				
At 1 January 2001	31,241	79,179	(27,100)	83,320
Arising on exercise of share options to acquire shares in the Company	1,400	–	–	1,400
Net profit for the year	–	–	25,289	25,289
Adjustment to 2000 final dividend – note 11	–	–	(160)	(160)
	32,641	79,179	(1,971)	109,849
Net profit for the year	–	–	54,188	54,188
Proposed final dividend – note 11	–	–	(10,570)	(10,570)
At 31 December 2002	32,641	79,179	41,647	153,467

- (a) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (b) As at 31 December 2002, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$153,467,000, subject to the restriction stated in note (a) above.
- (c) The capital reserve of the Group represents principally the excess fair values ascribed to the net underlying assets of certain subsidiaries acquired prior to the Group reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, over the purchase consideration paid therefor.

The contributed surplus of the Company arose as a result of the Group reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange therefor.

## NOTES TO FINANCIAL STATEMENTS

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### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

#### (a) Disposal of a subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	743	–
Trade receivables	7,884	–
Prepayments and other receivables	2,935	–
Cash and cash equivalents	54	–
Trade payables	(10)	–
Accrued liabilities and other payables	(4,962)	–
Tax payable	(8,814)	–
	(2,170)	–
Gain on disposal of a subsidiary (note 6)	2,190	–
	20	–
Satisfied by:		
Cash	20	–
An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:		
Cash consideration	20	–
Cash and cash equivalents disposed of	(54)	–
	(34)	–

The results of the subsidiary disposed of had no significant impact on the Group's consolidated turnover or profit after tax for the year.

## NOTES TO FINANCIAL STATEMENTS

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## 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

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## (b) Acquisition of a subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	-	29,181
Cash and bank balances	-	2,795
Inventories	-	2,335
Trade receivables	-	10,334
Prepayments, deposits and other receivables	-	14,307
Trade payables	-	(2,002)
Accrued liabilities and other payables	-	(251)
Due to a minority shareholder	-	(25,211)
Interest-bearing bank borrowings	-	(9,346)
Minority interests	-	(5,536)
	-	16,606
Goodwill on acquisition	-	76
	-	16,682
Satisfied by:		
Cash	-	5,512
Set-off against amount due to a minority shareholder	-	11,170
	-	16,682

## NOTES TO FINANCIAL STATEMENTS

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### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Acquisition of a subsidiary (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiary is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	–	5,512
Cash and bank balances acquired	–	(2,795)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	2,717

On 27 June 2001, the Company acquired through a 86.67% owned subsidiary a 75% indirect interest in Xiamen Optic Conduct Cable Company Limited (“Xiamen Optic”) at a consideration of HK\$16,682,000. Xiamen Optic is engaged in the manufacture and sale of optic fibre cable and digital fibre cable products.

For the year ended 31 December 2001, Xiamen Optic made a post-acquisition contribution of HK\$15 million to the Group’s turnover and HK\$702,000 to the consolidated profit after tax and before minority interests.

#### (c) Major non-cash transactions

During the year ended 31 December 2001, portion of the purchase consideration payable by the Group for the acquisition of subsidiaries, in the amount of HK\$11,170,000, was settled by offsetting against the same amount receivable by the Group for the disposal of fixed assets to the same party during that year.

### 28. CONTINGENT LIABILITIES

At the balance sheet date, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries and an associate, which were utilised to the extent of HK\$5.3 million (2001: HK\$8.4 million) at the balance sheet date.

Save as disclosed above, neither the Group, nor the Company, had any significant contingent liabilities at the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS

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## 29. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	275	–
In the second to fifth years, inclusive	165	–
	440	–

### (b) As lessee

The Group leases certain of its use of land under operating lease arrangements which are negotiated for a lease term of 50 years. In addition, the Group leases certain of its offices properties under operating lease arrangements. Leases for properties are ranged from two to three years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	321	138
In the second to fifth years, inclusive	796	565
After five years	9,544	9,689
	10,661	10,392

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### 30. COMMITMENTS

In addition to the operating lease commitments set out in note 29(b) above, the Group had the following capital commitments contracted but not provided for at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
Purchases of certain fixed assets	7,867	18,633
Procurement of land use rights for PRC land for 50 years	561	1,495
An investment in a subsidiary	12,000	–
	<b>20,428</b>	20,128

### 31. COMPARATIVE AMOUNTS

As further explained in note 1 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2003.