

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL

The Company was incorporated in the Cayman Islands on 17 October 1990 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company. The Company is a public limited company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the business of manufacture and sale of liquid crystal display products and electronic consumer products including calculators, pagers, MP3 players and electronic components.

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 ("SSAPs") 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 cash flow statement and the inclusion of a 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 and associates 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.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "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 received is now classified as investing cash flows. Interest paid and dividends paid are now classified as financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. Cash flows of overseas subsidiaries and operations 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. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

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2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE — continued

Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group’s only participates in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements of the Group for the current or prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting policies generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

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

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

Negative goodwill

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

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as a deduction from assets. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

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For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Investments in subsidiaries

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

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate less any identified impairment loss.

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

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

Income from properties under operating leases is recognised on a straight-line basis over the relevant lease term.

Property, plant and equipment

Property, plant and equipment, other than properties under development, is stated at cost less depreciation and amortisation, and any identified impairment losses.

Depreciation is provided to write off the cost of plant and equipment, other than properties under development, over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Furniture and fixtures	15% to 50%
Plant and machinery	15% to 40%
Motor vehicles	25% to 45%

The cost of buildings is depreciated over the shorter of forty years or the terms of the respective leases, using the straight line method. The cost of leasehold land is amortised over the remaining unexpired terms of the respective leases using the straight line method.

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

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES — continued

Properties under development

Land and buildings in the course of development for production are carried at cost, less any identified impairment losses. Depreciation of these assets, on the same basis as other property within property, plant and equipment, commences when the assets are ready for their intended uses.

Deferred development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life at 25% per annum.

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

Trademarks and technical know-how

Costs incurred in the registration of trademarks and expenditure on acquiring rights to technical know-how are capitalised and amortised on a straight line basis over their estimated useful lives at 20% to 25% per annum.

Impairment

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less estimated costs to completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES — continued

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 an asset will crystallise in the foreseeable future.

Leased assets

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

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits 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 operations are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

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

Notes to the Financial Statements

For the year ended 31 December 2002

4. TURNOVER

Turnover represents the net proceeds received and receivable on the sale of goods during the year, and is analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Sales of liquid crystal display products	737,257	544,526
Sales of electronic consumer products	119,829	137,560
	857,086	682,086

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions — liquid crystal display ("LCD") products and electronic consumer products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

LCD products — manufacture and distribution of LCD products

Electronic consumer products — manufacture and distribution of electronic consumer products

Segment information about these businesses is presented below:

2002

	LCD products HK\$'000	Electronic consumer products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	737,257	119,829	—	857,086
Inter-segment sales	1,070	—	(1,070)	—
Total revenue	738,327	119,829	(1,070)	857,086

Inter-segment sales are charged at cost.

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS — continued

2002

	LCD products HK\$'000	Electronic consumer products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
RESULT				
Segment result	133,694	(13,011)	—	120,683
Interest income from bank deposits				1,289
Unallocated other revenue				14
Unallocated corporate expenses				(689)
Profit from operations				121,297
Segment finance costs	(6,417)	—	—	(6,417)
Unallocated finance costs				(3,882)
Share of results of an associate	—	156	—	156
Profit before taxation				111,154
Taxation	(11,012)	(1,929)	—	(12,941)
Profit before minority interests				98,213
Minority interests				—
Profit for the year				98,213

BALANCE SHEET

	LCD products HK\$'000	Electronic consumer products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	722,067	530,370	1,252,437
Interest in an associate	—	620	620
Unallocated corporate assets			48
Consolidated total assets			1,253,105
LIABILITIES			
Segment liabilities	240,399	47,038	287,437
Unallocated corporate liabilities			83,957
Consolidated total liabilities			371,394

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS — continued

2002

OTHER INFORMATION

	LCD products HK\$'000	Electronic consumer products HK\$'000	Consolidated HK\$'000
Capital additions	35,420	33,563	68,983
Depreciation and amortisation	52,768	27,053	79,821
Loss on write-off of deferred development expenditure	—	7,708	7,708

2001

	LCD products HK\$'000	Electronic consumer products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	544,526	137,560	—	682,086
Inter-segment sales	1,166	—	(1,166)	—
Total revenue	545,692	137,560	(1,166)	682,086

Inter-segment sales are charged at cost.

RESULT

Segment result	75,710	4,193	—	79,903
Interest income from bank deposits				2,085
Unallocated other revenue				13
Unallocated corporate expenses				(1,105)
Profit from operations				80,896
Segment finance costs	(13,703)	—	—	(13,703)
Unallocated finance costs				(2,602)
Profit before taxation				64,591
Taxation	(3,789)	(1,052)	—	(4,841)
Profit before minority interests				59,750
Minority interests				326
Profit for the year				60,076

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS — continued

2001

BALANCE SHEET

	LCD	Electronic	
	products	products	Consolidated
	HK\$'000	HK\$'000	HK\$'000
ASSETS			
Segment assets	593,563	551,372	1,144,935
Unallocated corporate assets			<u>4,838</u>
Consolidated total assets			<u>1,149,773</u>
LIABILITIES			
Segment liabilities	202,945	60,719	263,664
Unallocated corporate liabilities			<u>62,898</u>
Consolidated total liabilities			<u>326,562</u>

OTHER INFORMATION

	LCD	Electronic	
	products	products	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Capital additions	80,604	27,668	108,272
Depreciation and amortisation	59,853	26,682	86,535
Impairment loss recognised as expenses	<u>—</u>	<u>4,800</u>	<u>4,800</u>

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS — continued

Geographical segments

The turnover of the Group, analysed by geographical segments, is as follows:

	Revenue by geographical segments	
	2002 HK\$'000	2001 HK\$'000
The People's Republic of China (the "PRC")	213,817	170,172
Europe	72,370	125,376
Hong Kong	115,948	120,750
Japan	143,657	96,349
South Korea	206,426	84,349
Others	104,868	85,090
	857,086	682,086

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The PRC	839,141	821,532	63,392	89,972
Hong Kong	393,471	304,011	5,133	17,489
Europe	8,909	14,002	300	147
Others	11,584	10,228	158	664
	1,253,105	1,149,773	68,983	108,272

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6. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation on:		
Owned assets	61,038	58,803
Assets held under finance leases	17,684	20,375
	78,722	79,178
Staff costs, inclusive of directors' remuneration		
Salaries and other benefits	98,258	86,403
Retirement benefits scheme contributions	2,507	1,125
Less: amount capitalised as deferred development expenditure	(3,715)	(5,578)
	97,050	81,950
Amortisation of deferred development expenditure included in cost of sales	897	7,218
Amortisation of intangible assets, other than deferred development expenditure, included in administrative expenses	202	139
Auditors' remuneration	1,021	1,117
Gain on acquisition of amount due to a minority shareholder	—	(4,745)
Impairment of deferred development expenditure included in administrative expenses	—	4,800
Interest income from bank deposits	(1,289)	(2,085)
Loss on disposal of property, plant and equipment	2,353	70
Loss on write-off of deferred development expenditure	7,708	—
Net foreign exchange gain	(3,879)	(1,359)
Operating lease rental income net of outgoing of HK\$Nil (2001: HK\$Nil)	(450)	(503)
Operating lease rental in respect of		
— rented premises	1,860	1,338
— other equipment	389	245

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7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	7,844	7,552
Finance leases	2,455	8,753
	10,299	16,305

8. DIRECTORS' REMUNERATION

	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Executives	—	—
Non-executive	50	50
Independent non-executives	40	40
Other emoluments paid to the executive directors:		
Salaries and other benefits	5,104	5,718
Performance related incentive payments	8,596	12,282
Contributions to retirement benefit scheme	72	72
	13,862	18,162

During the year, directors' emoluments amounting to HK\$Nil (2001: HK\$2,276,000) were capitalised as deferred development expenditure.

Emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	3	3
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$9,500,001 to HK\$10,000,000	1	—
HK\$13,000,001 to HK\$13,500,000	—	1

Notes to the Financial Statements

For the year ended 31 December 2002

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2001: three) were directors of the Company whose emoluments are set out in note 8 above. The emoluments of the remaining two (2001: two) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	1,980	2,276
Performance related incentive payments	2,000	—
Contributions to retirement benefit scheme	36	36
	4,016	2,312

Their emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$2,500,001 to HK\$3,000,000	1	—

10. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
— Provision in current year	11,389	5,258
— Overprovision in prior years	(58)	(2,780)
Overseas taxation	1,574	2,363
Share of tax on results of an associate	36	—
	12,941	4,841

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the year.

Notes to the Financial Statements

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10. TAXATION — continued

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries, 信利半導體有限公司, is entitled to exemption from PRC enterprise income tax for the first two years commencing from its first profit-making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The year ended 31 December 2001 is the company's first profit making year. No provision for PRC enterprise income tax has been made for other PRC subsidiaries as these subsidiaries have no assessable profit for the year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Details of the potential deferred tax charge not provided for the year are set out in note 26.

11. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Final dividend proposed in respect of the year ended 31 December 2001 of 4 HK cents (2000: 6 HK cents) per share	17,770	26,009
Interim dividend paid in respect of the year ended 31 December 2002 of 5 HK cents (2001: 4 HK cents) per share	22,213	17,392
	39,983	43,401

The final dividend in respect of the year ended 31 December 2002 of 7 HK cents per share had been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2002 HK\$'000	2001 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	98,213	60,076

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12. EARNINGS PER SHARE — continued

	2002 Number of shares	2001 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	444,259,527	435,960,078
Effect of dilutive potential ordinary shares — share options	3,756,804	5,817,800
Weighted average number of ordinary shares for the purposes of diluted earnings per share	448,016,331	441,777,878

13. PROPERTY, PLANT AND EQUIPMENT

	Properties under development HK\$'000	Land and buildings HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1 January 2002	30,260	332,016	53,490	765,832	9,910	1,191,508
Currency realignment	—	—	153	1	4	158
Additions	15,396	1,939	2,443	44,329	865	64,972
Disposals	—	—	(462)	(16,247)	(204)	(16,913)
At 31 December 2002	45,656	333,955	55,624	793,915	10,575	1,239,725
DEPRECIATION AND AMORTISATION						
At 1 January 2002	—	46,648	29,955	391,296	6,722	474,621
Currency realignment	—	—	99	—	3	102
Provided for the year	—	9,764	3,925	63,794	1,239	78,722
Eliminated on disposals	—	—	(285)	(13,944)	(204)	(14,433)
At 31 December 2002	—	56,412	33,694	441,146	7,760	539,012
NET BOOK VALUES						
At 31 December 2002	45,656	277,543	21,930	352,769	2,815	700,713
At 31 December 2001	30,260	285,368	23,535	374,536	3,188	716,887

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13. PROPERTY, PLANT AND EQUIPMENT — continued

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
The net book value of the Group's property interests shown above comprises:		
Leasehold properties in Hong Kong held under medium term leases	8,479	8,733
Leasehold properties in the PRC held under medium term leases	269,064	276,635
	277,543	285,368
Properties under development in the PRC held under medium term leases	45,656	30,260
	323,199	315,628

The net book value of plant and machinery includes an amount of HK\$100,208,000 (2001: HK\$119,123,000) in respect of assets held under finance leases.

14. INTANGIBLE ASSETS

	Deferred development expenditure HK\$'000	Technical know-how HK\$'000	Trademarks HK\$'000	Total HK\$'000
THE GROUP				
COST				
At 1 January 2002	102,539	1,610	2,125	106,274
Additions	3,715	—	296	4,011
Written off in the year	(87,802)	(1,610)	—	(89,412)
At 31 December 2002	18,452	—	2,421	20,873
AMORTISATION				
At 1 January 2002	90,242	1,610	1,674	93,526
Provided for the year	897	—	202	1,099
Eliminated on written off	(80,094)	(1,610)	—	(81,704)
At 31 December 2002	11,045	—	1,876	12,921
NET BOOK VALUES				
At 31 December 2002	7,407	—	545	7,952
At 31 December 2001	12,297	—	451	12,748

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15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	64,002	64,002
Amounts due from subsidiaries	250,253	251,657
	314,255	315,659

The directors confirmed that the amounts due from subsidiaries are unsecured, interest free and are not repayable within the next year and accordingly, the amounts are shown as non-current.

Details of the subsidiaries at 31 December 2002 are set out in note 33.

16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	620	—

Particulars of the associate at 31 December 2002 are as follow:

Name of associate	Form of business structure	Country of incorporation	Principal place of operation	Class of shares held	Percentage of issued share capital held by the Group	Principal activities
Fast Clean (Korea) Ltd.	Incorporated	South Korea	South Korea	Ordinary	50%	Trading in electrical consumer products

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17. LOANS RECEIVABLE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Interest bearing (<i>note a</i>)	2,835	2,825
Non-interest bearing (<i>note b</i>)	8,222	4,274
	11,057	7,099
Less: Amount receivable within one year shown under current assets	(11,057)	(2,390)
Amount receivable after one year	—	4,709

Notes

- a. The amount is unsecured, bears interest at 7% per annum and is repayable on 30 October 2003.
- b. The non-interest bearing loans are unsecured and repayable in 2003.

18. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	45,825	49,582
Work in progress	77,156	77,246
Finished goods	41,406	36,528
	164,387	163,356

Included above are work in progress of HK\$2,393,000 (2001: HK\$4,585,000) and finished goods of HK\$1,610,000 (2001: HK\$2,527,000) which are carried at net realisable values.

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19. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit terms ranging from 30 to 90 days to its trade customers.

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Aged analysis of trade receivables:		
Within 60 days	96,012	74,736
61 to 90 days	18,743	13,535
More than 90 days	16,627	15,172
	131,382	103,443
Other receivables, deposits and prepayments	39,314	49,750
	170,696	153,193

20. LOANS TO OFFICERS

Included in trade and other receivables are loans to officers, particulars of the loans disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Officer	Terms of loan	Balance at 31.12.2002 HK\$	Balance at 1.1.2002 HK\$	Maximum amount outstanding during the year HK\$
C. K. Poon (Technical Manager)	Unsecured, interest free and repayable on demand	—	600,000	600,000
S.W. Ng Thomas (Company Secretary)	Unsecured, interest free and repayable on demand	—	958,000	958,000

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21. TRADE AND OTHER PAYABLES

		THE GROUP	
		2002 HK\$'000	2001 HK\$'000
Aged analysis of trade payables:			
Within 60 days		66,724	26,765
61 to 90 days		9,532	9,035
More than 90 days		8,427	4,722
		84,683	40,522
Other payables and accrued charges		20,211	22,000
		104,894	62,522

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	32,415	45,521	31,164	42,217
In the second to fifth year inclusive	8,539	34,985	8,312	33,792
	40,954	80,506		
Less: Future finance charges	(1,478)	(4,497)		
Present value of lease obligations	39,476	76,009	39,476	76,009
Less: Amount due for settlement within one year shown under current liabilities			(31,164)	(42,217)
Amount due for settlement after one year			8,312	33,792

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 2 to 4 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Financial Statements

For the year ended 31 December 2002

23. BANK BORROWINGS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bank loans	79,578	60,650
Trust receipt loans	119,485	96,773
Bank overdrafts	680	8,229
Mortgage loans	4,320	2,160
	204,063	167,812
Secured	4,320	2,160
Unsecured	199,743	165,652
	204,063	167,812
The maturity profile of the bank borrowings is as follows:		
On demand or within one year	147,623	167,812
More than one year, but not exceeding two years	28,940	—
More than two years, but not exceeding five years	27,500	—
	204,063	167,812
Less: Amount due within one year shown under current liabilities	(147,623)	(167,812)
	56,440	—

24. SHARE CAPITAL

	2002	2001	2002	2001
	Number of shares	Number of shares	HK\$'000	HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At 31 December	500,000,000	500,000,000	50,000	50,000
Issued and fully paid:				
At 1 January	444,259,527	433,499,527	44,425	43,349
Issue of shares under share option scheme	—	10,760,000	—	1,076
At 31 December	444,259,527	444,259,527	44,425	44,425

Notes to the Financial Statements

For the year ended 31 December 2002

25. RESERVES

	Share premium	Special reserve	Capital redemption reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY					
At 1 January 2001	233,287	17,409	82	1,779	252,557
Issue of shares under share option scheme	17,001	—	—	—	17,001
Profit for the year	—	—	—	43,906	43,906
Dividends paid	—	—	—	(43,401)	(43,401)
At 1 January 2002	250,288	17,409	82	2,284	270,063
Profit for the year	—	—	—	39,326	39,326
Dividends paid	—	—	—	(39,983)	(39,983)
At 31 December 2002	250,288	17,409	82	1,627	269,406

The special reserve of the Company represents the difference between the net book values of the underlying assets of the Company's subsidiaries acquired at the date on which the shares of these companies were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisitions.

Under the applicable laws 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\$269,324,000 (2001: HK\$269,981,000).

Notes to the Financial Statements

For the year ended 31 December 2002

26. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of the unprovided deferred tax liabilities (assets) are as follows:

THE GROUP	
2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:	
Excess of tax allowances over depreciation	21,067
Tax losses	(2,488)
Other timing differences	1,006
20,050	19,585

No provision for deferred taxation has been recognised in the financial statements in respect of the timing differences arising during the year as in the opinion of the directors, it is not expected that the potential deferred taxation liability will reverse in the foreseeable future, after taking into account of the Group's medium term financial plans and projections. In addition, the directors expect the Group will have the following capital expenditure:

THE GROUP	
2002 HK\$'000	2001 HK\$'000
Capital expenditure for the next three years in respect of acquisition of property, plant and equipment authorised but not contracted for	400,000
450,000	400,000

The amount of the unprovided deferred tax (credit) charge for the year is as follows:

THE GROUP	
2002 HK\$'000	2001 HK\$'000
Excess of tax allowances and depreciation	1,478
Tax losses utilised	16
Other timing differences	(1,709)
465	(215)

The Company did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2002

27. CONTINGENT LIABILITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Export bills discounted with recourse	1,002	1,151

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by subsidiaries	203,650	166,600

28. OPERATING LEASE COMMITMENTS

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	1,380	1,073
In the second to fifth year inclusive	918	309
	2,298	1,382

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years with fixed rentals.

Notes to the Financial Statements

For the year ended 31 December 2002

29. CAPITAL COMMITMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Land and buildings	2,265	1,403
Plant and equipment	70,209	3,902
	72,474	5,305

30. SHARE OPTION SCHEME

In accordance with the Company's Share Option Scheme (the "Old Scheme"), which was adopted pursuant to an ordinary resolution passed on 11 July 1991, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Pursuant to an extraordinary resolution passed on 22 May 2001, the Old Scheme was terminated and a new Share Option Scheme (the "Scheme") was adopted.

At 31 December 2002, the number of shares in respect of which options were outstanding under the Scheme was 28,000,000 (2001: 28,000,000), representing 6.3% (2001: 6.3%) of the shares of the Company in issue at that date.

The purpose of the Scheme is to motivate employees of the Group and to allow them to participate in the growth of the Company. The maximum number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the share capital of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Scheme. Any participants who accepts an offer of the grant of an option in accordance with the terms of the Scheme shall pay to the Company HK\$1.00 by way of consideration for the grant thereof within a period of 30 days from the date on which an option is offered to the participant. The option is exercisable at any time following the date of grant until 21 May 2011. The Scheme has a life of 10 years and will expire on 22 May 2011.

The directors noted that an announcement was issued by the Stock Exchange on 23 August 2001 to introduce certain amendments to Chapter 17 (Equity Securities — Share Schemes) of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that such amendments became effective on 1 September 2001.

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEME — continued

Prior to 1 September 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1 September 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant.

As the existing Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the Scheme from 1 September 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the Scheme will continue to be exercisable in accordance with the Scheme.

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings during the year.

2002

Date granted	Exercisable period	Exercise price HK\$	Balance at 1.1.2002	Granted during year	Exercised during year	Lapsed during year	Balance at 31.12.2002
Directors:							
16 July 2001	17 July 2001 to 21 May 2011	2.196	20,700,000	—	—	—	20,700,000
Employees:							
16 July 2001	17 July 2001 to 21 May 2011	2.196	7,300,000	—	—	—	7,300,000
			28,000,000	—	—	—	28,000,000

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEME — continued

2001

Date granted	Exercisable period	Exercise price HK\$	Balance at 1.1.2001	Granted during year	Exercised during year (Note)	Lapsed during year	Balance at 31.12.2001
Directors:							
23 July 1996	23 October 1996 to 23 October 2001	1.680	9,950,000	—	(9,950,000)	—	—
26 July 1999	26 October 1999 to 10 July 2001	1.864	3,775,000	—	—	(3,775,000)	—
5 January 2001	6 April 2001 to 10 July 2001	2.412	—	14,700,000	—	(14,700,000)	—
16 July 2001	17 July 2001 to 21 May 2011	2.196	—	20,700,000	—	—	20,700,000
Employees:							
23 July 1996	23 October 1996 to 23 October 2001	1.680	3,610,000	—	(810,000)	(2,800,000)	—
26 July 1999	26 October 1999 to 10 July 2001	1.864	4,225,000	—	—	(4,225,000)	—
5 January 2001	6 April 2001 to 10 July 2001	2.412	—	5,300,000	—	(5,300,000)	—
16 July 2001	17 July 2001 to 21 May 2011	2.196	—	7,300,000	—	—	7,300,000
			21,560,000	48,000,000	(10,760,000)	(30,800,000)	28,000,000

Note: The options were exercised in January and from June to October 2001. The market prices of the shares on the exercise dates ranged from HK\$1.65 to HK\$3.35.

31. RETIREMENT BENEFITS SCHEME

All the staff in Hong Kong of the Group are required to join the Mandatory Provident Fund Scheme. The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the scheme.

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

During the year, the retirement benefits scheme contributions are HK\$2,507,000 (2001: HK\$1,125,000).

Notes to the Financial Statements

For the year ended 31 December 2002

32. PLEDGE OF ASSETS

At 31 December 2002, the Group had pledged certain of its leasehold properties and other properties, plant and equipment with an aggregate carrying value of HK\$8,230,000 (2001: HK\$8,477,000) to secure banking facilities granted to the Company's subsidiaries.

33. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Proportionate equity interest of the Group		Principal activities
			Directly	Indirectly	
Fast Clean Limited	Hong Kong	HK\$100	—	60%	Trading in electric toothbrush
Truly Electronics Manufacturing Limited	Hong Kong	HK\$1,000,010	100%	—	Trading in electronic calculators
Truly Electrical Products Company Limited	Hong Kong	HK\$100	—	60%	Inactive
Truly GSM Technologies Limited	Hong Kong	HK\$100	—	94%	Inactive
Truly Industrial Limited	Hong Kong	HK\$872,894	—	100%	Trading in electronic components
Truly Semiconductors (Europe) GmbH	Germany	DM50,000	—	100%	Trading in liquid crystal display products
Truly Semiconductors Limited	Hong Kong	HK\$1,000	—	100%	Trading in liquid crystal display products
Truly Telecommunications Company Limited	Hong Kong	HK\$1,000	—	100%	Trading in pagers
Truly (USA) Inc.	United States of America	US\$20,000	100%	—	Marketing of electronic calculators
信利電子有限公司*	PRC	RMB226,456,216	—	100%	Manufacture of electronic calculators and pagers
信利半導體有限公司*	PRC	RMB192,411,681	—	100%	Manufacture of liquid crystal display products

Notes to the Financial Statements

For the year ended 31 December 2002

33. PARTICULARS OF SUBSIDIARIES — continued

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Proportionate equity interest of the Group		Principal activities
			Directly	Indirectly	
汕尾市信益房地產開發有限公司*	PRC	RMB24,323,788	—	100%	Property holding
潔齒亮(汕尾)有限公司# (Formerly known as 信利電器(廣東)有限公司)	PRC	RMB8,265,100	—	60%	Manufacture of electric toothbrush

* wholly-foreign owned enterprise

sino-foreign equity joint venture

None of the subsidiaries had any debt capital outstanding at 31 December 2002 or at any time during the year.