1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated in the Cayman Islands with limited liability on 18 September 2000.

The registered office of the Company is located in Zephyr House, Mary Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements. There were no changes in the natures of the subsidiaries' principal activities during the year.

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 7 December 2000. This was accomplished by acquiring the entire issued share capital of Tong Da Holdings (BVI) Limited ("Tong Da (BVI)"), the intermediate holding company of the Group, in consideration of and in exchange for (i) the issue and allotment of an aggregate of 1,000,000 new shares in the Company, credited as fully paid, to the former shareholders of Tong Da (BVI); and (ii) the credit as fully paid of the 999,999 shares of HK$0.10 each in the Company allotted and issued nil paid to the former shareholders of Tong Da (BVI) on 18 September 2000. Further details of the Group Reorganisation are set out in note 22 to the financial statements and in the Company's prospectus dated 12 December 2000.

On 22 December 2000, the shares of the Company were listed on the Stock Exchange.

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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries throughout the period from 1 January 1999, rather than from the date of their acquisition pursuant to the Group Reorganisation on 7 December 2000. Accordingly, the consolidated results and cash flows of the Group for each of the two years ended 31 December 2000 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results of the Group as a whole.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation and consolidation *(Continued)*

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

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, as further explained below.

A comparative Company balance sheet has not been presented because the Company did not exist at 31 December 1999.

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:

– from 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;

– interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

– dividend income, when the shareholders' right to receive payment has been established.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Shares in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Jointly-controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and where none of the participating parties has unilateral control over the economic activity. Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities *(Continued)*

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation.

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 asset, the expenditure is capitalised as an additional cost of the fixed asset.

Changes in the values of fixed assets are dealt with as movements in the fixed 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 of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost 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 years
Furniture, fixtures and office equipment	–	5 – 10 years
Motor vehicles	–	5 – 10 years

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

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 is stated at cost. No depreciation is provided on construction in progress until it is completed and put into use.

Where in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying value of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions in recoverable amounts are charged directly to the profit and loss account.

All of the Group's fixed assets prior to the listing of the Company's shares on the Stock Exchange were stated at cost less accumulated depreciation. The financial effect involved in the remeasurement of certain of the Group's fixed assets on a valuation basis principally involved the incorporation of a deficit on revaluation in the amount of HK$2,251,000, which is charged to the consolidated profit and loss account for the current year. Further details of the change in accounting policy for the remeasurement of the Groupís fixed assets are set out in note 12 to the financial statements.

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 further costs expected to be incurred to completion and disposal.

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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Capital reserve

The capital reserve arising on consolidation of subsidiaries represents the excess fair values ascribed to the net underlying assets of subsidiaries acquired over the purchase consideration paid.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, 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

All research costs are charged to the profit and loss account as incurred.

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 reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the estimated commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

During each of the financial years ended 31 December 1999 and 2000, all research and development costs incurred were not significant to the Group and had been charged to the profit and loss account in the years when they were incurred.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

3. RELATED PARTIES TRANSACTIONS

(i) During the two years ended 31 December 2000, the Group had received an advance from a director of the Company, further details of which are set out in note 19 to the financial statements.

(ii) During the year ended 31 December 2000, the Group received management fees and services income in the amounts of HK$194,000 (1999: HK$259,000) and HK$349,000 (1999: HK$442,000) from a related company in which two directors of the Company also held directorships. The directors consider that the management fees and services income were made on a cost recovery basis according to the estimated cost of the services rendered. These transaction ceased from 1 November 2000.

(iii) As at 31 December 2000, the banking facilities of the Group were secured by the following:

(a) legal charges on certain properties owned by two directors;

(b) joint and several guarantees executed by two directors;

(c) a personal guarantee executed by a director of a subsidiary of the Company; and

(d) the pledge of a director's fixed deposit.

The Group has received consent in principle from its bankers to the release of the above securities.

4. 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.

An analysis of the Group's turnover by principal activity and geographical area pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") is as follows:

	2000 *HK$'000*	1999 *HK$'000*
(i) By principal activity:		
Manufacture and sale of ironware parts	167,392	153,093
Manufacture and sale of accessories for electrical appliances	120,761	78,841
Manufacture and sale of electronic components	69,158	56,650
	357,311	288,584
(ii) By geographical area:		
The People's Republic of China:		
Hong Kong	2,285	1,693
Elsewhere	229,617	194,399
Southeast Asian countries *(Note)*	121,148	90,183
Others	4,261	2,309
	357,311	288,584

Note: Including mainly Indonesia, Malaysia, the Philippines and Singapore.

5. PROFIT FROM OPERATING ACTIVITIES

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

	2000 *HK$'000*	1999 *HK$'000*
Cost of inventories sold	251,689	213,380
Staff costs		
Salaries and wages (excluding directors' emoluments)	13,633	12,304
Pension contributions (excluding directors' emoluments)	12	10
Less: Amount included in research and development costs	(109)	(88)
	13,536	12,226
Depreciation	5,299	4,224
Auditors' remuneration	900	850
Research and development costs	1,673	2,564
Deficit on revaluation of fixed assets	2,251	–
Provisions for bad and doubtful debts	1,821	–
Gain on disposal of fixed assets	(23)	(238)
Interest income	(625)	(87)

5. PROFIT FROM OPERATING ACTIVITIES *(Continued)*

An analysis of the Group's profit from operating activities by principal activity and geographical area pursuant to the requirements of the Listing Rules is as follows:

	2000 *HK$'000*	1999 *HK$'000*
(i) By principal activity:		
Manufacture and sale of ironware parts	37,079	32,850
Manufacture and sale of accessories for electrical appliances	31,139	18,382
Manufacture and sale of electronic components	13,436	8,574
	81,654	59,806
(ii) By geographical area:		
The People's Republic of China:		
Hong Kong	611	561
Elsewhere	45,676	27,581
Southeast Asian countries *(Note)*	34,178	30,895
Others	1,189	769
	81,654	59,806

Note: Including mainly Indonesia, Malaysia, the Philippines and Singapore.

6. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Details of the aggregate directors' remuneration are as follows:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Fees:		
Executive directors	–	–
Independent non-executive directors	–	–
Other emoluments paid and payable to executive directors:		
Basic salaries, housing, other allowances and benefits in kind	1,285	792
Pension scheme contributions	5	–
	1,290	792

The remuneration paid to each of the Company's directors (8 persons in total) fell within the band of nil to HK$1,000,000 in both of the years ended 31 December 2000 and 1999.

There were no arrangements 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 the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Five highest paid employees

The five highest paid individuals for the current year included 3 directors, details of whose remuneration are set out above. The remuneration of the remaining 2 non-director, highest paid individuals was analysed as follows:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Basic salaries, housing, other allowances and benefits in kind	668	–
Pension scheme contributions	2	–
	670	–

6. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

Five highest paid employees *(Continued)*

The remuneration paid to each of the non-director, highest paid individuals (2 persons in total) fell within the band of nil to HK$1,000,000 for the year ended 31 December 2000. The five highest paid individuals for the year ended 31 December 1999 are all directors, details of whose remuneration are set out above.

7. FINANCE COSTS

	2000 *HK$'000*	1999 *HK$'000*
Interest expenses on bank loans wholly repayable within five years	3,046	2,436

8. TAX

	2000 *HK$'000*	1999 *HK$'000*
Current year provision:		
The People's Republic of China:		
Hong Kong	–	–
Elsewhere	15,547	11,915
	15,547	11,915

Hong Kong profits tax has not been provided as the Group has not generated any assessable profits arising from its operations in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax applicable in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

As at the balance sheet date, there were no material timing differences which would give rise to a deferred tax asset or liability (1999: Nil).

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company for the period from 18 September 2000 (date of incorporation) to 31 December 2000 is HK$24,400,000.

10. DIVIDENDS

	2000 HK$'000	1999 HK$'000
Interim dividend	37,000	25,800
Proposed final dividend	24,000	–
	61,000	25,800

The interim dividend was proposed and paid by Tong Da Holdings (BVI) Limited to its then shareholders prior to the Group Reorganisation as described in note 1 to the financial statements.

The directors recommend the payment of a final dividend of HK$0.08 per share in respect of the year ended 31 December 2000 to all shareholders whose name appears on the register of members on 28 May 2001.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK$62,658,000 (1999: HK$45,462,000) and the weighted average of 227,054,795 (1999: 225,000,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the earnings per share for the year ended 31 December 1999 includes the pro forma issued share capital of the Company, comprising 999,999 shares issued nil paid and 1 share issued fully paid at par on incorporation of the Company, 1,000,000 shares issued for the acquisition of the entire issued share capital of Tong Da (BVI) and the capitalisation issue of 223,000,000 shares, as further detailed in note 22 to the financial statements. The weighted average number of shares used to calculate the earnings per share for the year ended 31 December 2000 also includes the 75,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 22 December 2000.

Diluted earnings per share for the years ended 31 December 1999 and 2000 have not been shown as there were no potential dilutive ordinary shares in existence during both years.

12. FIXED ASSETS

	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
Group								
Cost or valuation:								
At beginning of year	4,804	48,220	307	25,362	1,748	3,778	1,327	85,546
Additions	–	5,552	20	17,034	880	355	2,710	26,551
Disposals	–	–	–	(894)	–	(15)	–	(909)
Transfer in/(out)	–	1,209	–	1,403	–	–	(2,612)	–
Deficit arising on revaluation	(2,804)	–	–	–	–	–	–	(2,804)
At 31 December 2000	2,000	54,981	327	42,905	2,628	4,118	1,425	108,384
Accumulated depreciation:								
At beginning of year	433	3,783	245	9,037	853	1,761	–	16,112
Provided for the year	120	1,872	65	2,439	296	507	–	5,299
Written back on disposal	–	–	–	(589)	–	(16)	–	(605)
Written back on revaluation	(553)	–	–	–	–	–	–	(553)
At 31 December 2000	–	5,655	310	10,887	1,149	2,252	–	20,253
Net book value:								
At 31 December 2000	2,000	49,326	17	32,018	1,479	1,866	1,425	88,131
At 31 December 1999	4,371	44,437	62	16,325	895	2,017	1,327	69,434

12. FIXED ASSETS *(Continued)*

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

	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	–	54,981	327	42,905	2,628	4,118	1,425	106,384
At 31 December 2000 valuation	2,000	–	–	–	–	–	–	2,000
At 31 December 2000	2,000	54,981	327	42,905	2,628	4,118	1,425	108,384

All the Group's leasehold land and buildings are held under medium term leases.

The Group's leasehold land and buildings situated in Hong Kong were revalued at the balance sheet date by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers, at an open market value of HK$2,000,000 based on their existing use. A deficit of HK$2,251,000 arising therefrom has been charged to the profit and loss account (note 5).

In respect of the Group's leasehold land and buildings situated elsewhere 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 right 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 PRC and the Group has the entitlement to obtain the real estate titles from the relevant PRC authority.

Based on a professional valuation performed by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers, the open market value of the Group's leasehold land and buildings situated elsewhere in the PRC would have been HK$66,300,000 at 31 December 2000, based on their existing use and on condition that the Group was able to obtain the New Certificates, which would have given rise to a corresponding revaluation surplus of HK$16,974,000 as at that date. As set out in the Company's prospectus dated 12 December 2000, the Directors expect to reflect the additional revaluation surplus for the PRC leasehold land and buildings in the Group's financial statements when the relevant New Certificates are obtained and any current remaining uncertainties as 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 amounts would have been approximately HK$4,251,000 (1999: HK$4,371,000).

13. INVESTMENTS IN SUBSIDIARIES

Company

	HK$'000
Unlisted investments, at cost	79,379

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US$10,000	100%	–	Investment holding
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK$880,000	–	100%	Investment holding and raw material sourcing
Ever Target Limited	Hong Kong	Ordinary HK$4	–	100%	Investment holding and raw material sourcing
Tongda Overseas Company Limited (formerly as "Dormerworth Profits Limited")	BVI	Ordinary US$1	–	100%	Trading of electrical accessories, electronic and ironware products

13. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ establishment	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tongda Electrics Company Limited, Shishi *(Note 1)*	The People's Republic of China ("PRC")	Registered RMB5,813,685	–	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%	Manufacture and sale of ironware products
Tongda Electronic Company Limited, Shishi City *(Note 3)*	PRC	Registered RMB10,000,000	–	100%	Manufacture and sale of resistors and other electronic products
Tongda (Shenzhen) Company Limited	Hong Kong	Ordinary HK$2	–	100%	Manufacture and sale of ironware products in the PRC, currently dormant
Laitverne Management Limited	BVI	Ordinary US$1	–	100%	Provision of marketing services in the PRC

13. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ establishment	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Taxdeal Properties Limited	BVI	Ordinary US$1	–	100%	Provision of technical support services in the PRC
Tabcombe Consultants Limited	BVI	Ordinary US$1	–	100%	Provision of quality control services in the PRC

Notes:

1. Tongda Electrics Company Limited, Shishi is a wholly foreign-owned enterprise ("WOFE") with an operating period of 15 years commencing 12 February 1993. The registered capital was fully paid in 1997.

2. Tong Da Metals Company Limited, Shishi City, Fujian is a WOFE with an operating period of 15 years commencing 29 October 1992. The registered capital was fully paid in 1998.

3. Tongda Electronic Company Limited, Shishi City is a WOFE with an operating period of 30 years commencing from 20 December 1998. The registered capital was fully paid in 1997.

All subsidiaries operate principally in their places of incorporation unless otherwise specified under "Principal activities".

14. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2000 HK$'000	1999 HK$'000
Share of net liabilities	(408)	–
Due from a jointly-controlled entity	2,320	–
	1,912	–

14. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(Continued)*

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation	Percentage of equity interest, voting power and profit sharing	Principal activities
Meijitsu Tongda (HK) Company Limited	Incorporated	Hong Kong	50%	Manufacture and sale of screen printing products in the PRC

The balance with the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

As the amount due from the jointly-controlled entity arose from an advance to this investee company for the purpose of operational financing, other than the circumstances when it is considered that the jointly-controlled entity has more than adequate working capital for financing its operations, the directors of the Company do not intend to demand settlement of the amount involved within the 12 month period from the balance sheet date.

15. INVENTORIES

	Group	
	2000	1999
	HK$'000	*HK$'000*
Raw materials	11,741	22,056
Work in progress	2,077	1,077
Finished goods	6,923	1,902
	20,741	25,035

At 31 December 2000, no inventories were stated at net realisable value (1999: Nil).

16. TRADE AND BILLS RECEIVABLE

	Group 2000 HK$'000	Group 1999 HK$'000
Trade receivables	88,632	55,506
Bills receivable	3,237	9,025
	91,869	64,531

The age of the Group's trade and bills receivable as at 31 December 2000 is analysed as follows:

	Group 2000 HK$'000	Group 1999 HK$'000
Within 3 months	80,963	51,189
4 to 6 months	6,547	10,942
7 to 9 months	3,861	1,908
10 to 12 months	1,351	1,256
More than 1 year	1,958	226
	94,680	65,521
Provision for bad and doubtful debts	(2,811)	(990)
	91,869	64,531

It is the general policy of the Group to allow a credit period of two to three 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.

17. CASH AND CASH EQUIVALENTS

	Group	
	2000	1999
	HK$'000	*HK$'000*
Cash and bank balances	15,536	21,665
Bank deposits	61,400	–
	76,936	21,665

18. TRADE AND BILLS PAYABLE

	Group	
	2000	1999
	HK$'000	*HK$'000*
Trade payables	18,071	34,879
Bills payable	2,791	4,159
	20,862	39,038

The age of the Group's trade and bills payable as at 31 December 2000 is analysed as follows:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Within 3 months	14,150	30,897
4 to 6 months	4,560	3,289
7 to 9 months	–	1,846
10 to 12 months	2,029	1,949
More than 1 year	123	1,057
	20,862	39,038

19. AMOUNT DUE TO A DIRECTOR

The amount due to a director was unsecured, interest-free and had no fixed terms of repayment.

20. INTEREST-BEARING BANK BORROWINGS

	Group 2000 HK$'000	Group 1999 HK$'000
Bank loans, secured:		
Amount repayable within one year	47,383	32,196

21. BANKING FACILITIES

As at 31 December 2000, the Group's banking facilities were secured by the following:

(i) a legal charge on a leasehold property situated in Hong Kong owned by the Group;

(ii) cross-guarantees amongst certain subsidiaries of the Company to the extent of approximately HK$47 million;

(iii) legal charges on certain properties owned by two directors;

(iv) joint and several guarantees executed by two directors;

(v) a personal guarantee executed by a director of a subsidiary of the Company; and

(vi) the pledge of a director's fixed deposit.

The Group has received consent in principle from its banker to the release of the securities set out in (iii) to (vi) above.

22. SHARE CAPITAL

	2000 HK$'000
Authorised:	
2,000,000,000 ordinary shares of HK$0.10 each	200,000
Issued and fully paid:	
300,000,000 ordinary shares of HK$0.10 each	30,000

22. SHARE CAPITAL *(Continued)*

The following changes in the Company's authorised and issued share capital took place during the period from 18 September 2000 (date of incorporation) to 31 December 2000:

(i) On incorporation, the authorised share capital of the Company was HK$100,000, divided into 1,000,000 shares of HK$0.10 each. On incorporation, 999,999 shares were allotted and issued nil paid and 1 share was allotted and issued fully paid at par.

(ii) On 7 December 2000, the authorised share capital of the Company was increased to HK$200,000,000 by the creation of an additional 1,999,000,000 shares of HK$0.10 each.

(iii) On 7 December 2000, as part of the Group Reorganisation further described in note 1, the Company issued an aggregate of 1,000,000 shares of HK$0.10 each credited as fully paid as consideration for the acquisition of the entire issued share capital of Tong Da (BVI). The excess of the fair value of the shares of Tong Da (BVI), determined on the basis of the consolidated net assets at that date, over the nominal value of the Company's shares issued and credited as fully paid in exchange therefor, amounting to HK$79,279,000, was credited to the Company's contributed surplus as set out in note 23.

(iv) On 7 December 2000, an amount of HK$100,000, being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the shares of Tong Da (BVI) as set out in (iii) above, was applied to pay up, in full at par value, the 999,999 shares allotted and issued nil paid on incorporation.

(v) On 7 December 2000, a total of 223,000,000 shares of HK$0.10 each were allotted and issued as fully paid at par to the holders of the shares whose names appeared on the register of members of the Company at that date, in proportion to their shareholdings, by way of the capitalisation of the sum of HK$22,300,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"). This allotment and capitalisation were conditional on the share premium account being credited as a result of the new share issue to the public on 22 December 2000.

(vi) On 22 December 2000, 75,000,000 shares of HK$0.10 each were issued to the public by way of a new issue and placement of shares at HK$1.00 each, for a total cash consideration, before related issuing expenses, of HK$75,000,000.

22. SHARE CAPITAL *(Continued)*

A summary of the above changes in the issued share capital of the Company is as follows:

	Notes	Number of shares issued	Nominal value of shares issued HK$
Share allotted and issued at par on incorporation	(i)	1	–
Shares allotted and issued nil paid on incorporation	(i)	999,999	–
Shares issued as consideration for the acquisition of the entire issued share capital of Tong Da (BVI) pursuant to the Group Reorganisation	(iii)	1,000,000	100,000
Application of contributed surplus to pay up nil paid shares issued on incorporation	(iv)	–	100,000
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public share issue	(v)	223,000,000	–
Pro forma issued share capital at 31 December 1999		225,000,000	200,000
New issue upon public listing	(vi)	75,000,000	7,500,000
Capitalisation of the share premium account as set out above	(v)	–	22,300,000
Share capital as at 31 December 2000		300,000,000	30,000,000

22. SHARE CAPITAL *(Continued)*

Share options

Pursuant to the share option scheme adopted by the Company on 7 December 2000 (the "Scheme"), the board of directors may, at their discretion, invite any executive director or employee of the Company and its subsidiaries, to take up options to subscribe for the Company's shares. The subscription price is determined by the directors and may not be less than the higher of 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, or the nominal value of the Company's shares. A nominal cash consideration of HK$1.00 is payable upon the acceptance of the grant of an option. The maximum number of shares issued and issuable under the Scheme may not (when aggregated with the Company's shares subject to any other employee share option) exceed in nominal value 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the scheme (or any other employee share option scheme). No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued, and which may fall to be issued, to him under all of the options previously granted to him pursuant to the scheme, exceeding 25% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Scheme. The Scheme became effective for a period of 10 years upon the listing of the Company's shares on the Stock Exchange on 22 December 2000. Further details of the Scheme are set out in the Company's prospectus dated 12 December 2000.

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

23. RESERVES

	Share premium account HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Group					
At 1 January 1999	–	872	(962)	58,886	58,796
Net profit attributable to shareholders for the year	–	–	–	45,462	45,462
Dividends	–	–	–	(25,800)	(25,800)
At 31 December 1999 and 1 January 2000	–	872	(962)	78,548	78,458
Premium arising from issue of shares	67,500	–	–	–	67,500
Capitalisation issue of shares	(22,300)	–	–	–	(22,300)
Share issue expenses	(13,959)	–	–	–	(13,959)
Arising on acquisition of additional equity interests in a subsidiary	–	121	(41)	–	80
Net profit attributable to shareholders for the year	–	–	–	62,658	62,658
Dividends	–	–	–	(61,000)	(61,000)
At 31 December 2000	31,241	993	(1,003)	80,206	111,437
The reserves are retained as follows:					
Company and subsidiaries	31,241	993	(1,003)	80,619	111,850
Jointly-controlled entity	–	–	–	(413)	(413)
At 31 December 2000	31,241	993	(1,003)	80,206	111,437
Company and subsidiaries	–	872	(962)	78,548	78,458
At 31 December 1999	–	872	(962)	78,548	78,458

23. RESERVES *(Continued)*

	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Company				
Arising on acquisition of Tong Da (BVI) and applied in payment of 1,000,000 shares allotted nil paid on incorporation	–	79,179	–	79,179
Premium arising from issue of shares	67,500	–	–	67,500
Capitalisation issue of shares	(22,300)	–	–	(22,300)
Share issue expenses	(13,959)	–	–	(13,959)
Net profit for the period	–	–	24,400	24,400
Dividends	–	–	(24,000)	(24,000)
	31,241	79,179	400	110,820

(a) The share premium account of the Company includes shares issued at a premium upon the listing of the Company's shares on the Stock Exchange. Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company 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 2000, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$110,820,000, subject to the restrictions stated in note 23(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 as set out in note 1 to the financial statements, over the purchase consideration paid in respect therefor.

The contributed surplus of the Company arose as a result of the Group Reorganisation as set out in note 1 to the financial statements, 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.

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) **Reconciliation of profit from operating activities to net cash inflow from operating activities**

	2000 *HK$'000*	1999 *HK$'000*
Profit from operating activities	81,654	59,806
Depreciation	5,299	4,224
Provisions for bad and doubtful debts	1,821	–
Interest income	(625)	(87)
Gain on disposal of fixed assets	(23)	(238)
Deficit on revaluation of fixed assets	2,251	–
Decrease in inventories	4,294	1,092
Increase in trade and bills receivable	(29,159)	(19,471)
Increase in prepayment, deposits and other receivables	(6,948)	(7,641)
Increase/(decrease) in trade and bills payable	(18,176)	15,538
Increase in accrued liabilities and other payables	7,356	2,653
Net cash inflow from operating activities	47,744	55,876

(b) **Analysis of changes in financing**

	Share capital and share premium account *HK$'000*	Advance from directors *HK$'000*	Bank loans *HK$'000*	Minority interests *HK$'000*
At 1 January 1999	200	–	28,484	1,090
Net cash inflow from financing	–	464	3,712	–
Share of net loss of a subsidiary	–	–	–	(7)
At 31 December 1999 and 1 January 2000	200	464	32,196	1,083
Net cash inflow/(outflow) from financing	61,041	(464)	15,187	–
Share of net loss of a subsidiary	–	–	–	(10)
Reversed on acquisition of additional equity interests in a subsidiary	–	–	–	(1,073)
At 31 December 2000	61,241	–	47,383	–

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) **Major non-cash transaction**

During the year, the Group acquired additional equity interests in a previously partially owned subsidiary at a consideration of RMB800,000. The consideration was settled in full by its set off against a receivable of an equivalent amount due from the minority shareholder holding the underlying equity interests.

25. COMMITMENTS

(i) At the balance sheet dates, the Group had capital commitments in respect of the addition of plant and machinery and construction in progress as follows:

	2000 *HK$'000*	1999 *HK$'000*
Contracted but not provided for	10,093	1,786

(ii) On 16 October 2000, a subsidiary of the Company entered into a letter of intent to lease a piece of land in Shenzhen, the PRC. The Group will enter into a formal agreement for leasing the land use rights for a term of 50 years at a consideration of approximately HK$1,680,000.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 April 2001.