

# Notes to Financial Statements

31 December 2001

## 1. CORPORATE INFORMATION

The principal office of K & P International Holdings Limited is located at Units 2304-06, 23rd Floor, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of electronic and related components and parts (comprising keypads, synthetic rubber and plastic components and parts, and liquid crystal displays ("LCD"))
- design, manufacture and sale of electronic consumer products (comprising electronic calculators, alarm clocks and LCD products)

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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 and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The adoption of the SSAP has had no impact on the preparation of these financial statements.

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## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") (Continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 25 and 34 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 30 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

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.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### 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 Company's interests in subsidiaries are stated at cost 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 on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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/amortisation), 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.

### **Fixed assets and depreciation**

Fixed assets, other than investment properties, 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 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 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.

# Notes to Financial Statements

31 December 2001

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Fixed assets and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land held under medium term leases	Over the lease terms
Buildings	2.5%
Leasehold improvements	25% to 30%
Plant and machinery	12.5% to 25%
Furniture, fixtures and office equipment	20% to 30%
Motor vehicles	20% to 25%
Moulds	20% to 33.33%

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.

### Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### 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.

### Inventories

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

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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.

### **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 until its realisation is assured beyond reasonable doubt.

### **Intangible assets**

#### *Technical know-how*

Technical know-how is stated at cost and amortised on the straight-line basis over its estimated useful life of five years.

#### *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 commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

### **Long term investments**

#### *Equity investments*

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

# Notes to Financial Statements

31 December 2001

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Long term investments** *(Continued)*

#### *Equity investments (Continued)*

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

#### *Club memberships*

Long term investments in club memberships, which are intended to be held for long term purposes, are stated at cost less any impairment losses.

### **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 are translated in 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.

### **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;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (c) tooling charge income, when the services are rendered; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. The Scheme has operated since 1 December 2000. 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 Scheme. The assets of the 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 Scheme.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a central pension scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme.

## 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 and related components and parts segment comprise the manufacture and sale of electronic and related components and parts;
- (b) the consumer electronic products segment comprise the manufacture and sale of consumer electronic products comprising electronic calculators, alarm clocks and liquid crystal display products; and
- (c) the corporate and others segment comprises the Group's long term investments, together with corporate income and expense items.

In determining the Group's geographical segments, revenues and results 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 cost of sales.



# 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 and related components and parts	Consumer electronic products	Corporate and others	Eliminations	Consolidated
	2001 HK\$	2001 HK\$	2001 HK\$		
Segment revenue:					
Sales to external customers	100,949,411	86,058,392	-	-	187,007,803
Intersegment sales	4,925,805	848	-	(4,926,653)	-
Other revenue	1,971,853	236,602	1,752	-	2,210,207
<b>Total</b>	<b>107,847,069</b>	<b>86,295,842</b>	<b>1,752</b>	<b>(4,926,653)</b>	<b>189,218,010</b>
<b>Segment results</b>	<b>(2,981,790)</b>	<b>(2,037,612)</b>	<b>(2,591,988)</b>		<b>(7,611,390)</b>
Interest income					354,640
Profit/(loss) from operating activities					(7,256,750)
Finance costs					(2,740,691)
Profit/(loss) before tax					(9,997,441)
Tax					(567,795)
Net profit/(loss) from from ordinary activities attributable to shareholders					(10,565,236)
Segment assets	121,406,806	34,966,651	17,604,603	(363,453)	173,614,607
Unallocated assets	-	-	-	-	766,763
<b>Total assets</b>					<b>174,381,370</b>
Segment liabilities	21,100,352	15,234,089	1,050,065	(1,559,999)	35,824,507
Unallocated liabilities	-	-	-	-	37,936,368
<b>Total liabilities</b>					<b>73,760,875</b>
Other segment information:					
Depreciation and amortisation	18,598,952	3,862,545	1,351,860	-	23,813,357
Write back of provision for doubtful debts	-	(3,140,000)	-	-	(3,140,000)
Surplus on revaluation of leasehold land and buildings	-	-	(239,706)	-	(239,706)
Write back of provision against inventories	-	-	-	-	-
Capital expenditure	14,685,356	1,975,442	391,040	-	17,051,838

# Notes to Financial Statements

31 December 2001

## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

Group	Electronic and related components and parts 2000 HK\$	Consumer electronic products 2000 HK\$	Corporate and others 2000 HK\$	Eliminations 2000 HK\$	Consolidated 2000 HK\$
Segment revenue:					
Sales to external customers	118,712,847	95,246,111	-	-	213,958,958
Intersegment sales	10,420,374	-	-	(10,420,374)	-
Other revenue	3,731,767	469,017	33,638	-	4,234,422
<b>Total</b>	<b>132,864,988</b>	<b>95,715,128</b>	<b>33,638</b>	<b>(10,420,374)</b>	<b>218,193,380</b>
Segment results	15,028,217	(1,246,557)	(2,858,151)		10,923,509
Interest income					629,557
Profit/(loss) from operating activities					11,553,066
Finance costs					(4,253,918)
Profit/(loss) before tax					7,299,148
Tax					(852,610)
Net profit/(loss) from ordinary activities attributable to shareholders					6,446,538
Segment assets	125,946,199	49,833,862	23,493,548	(8,773,115)	190,500,494
Unallocated assets	-	-	-	-	1,253,618
<b>Total assets</b>					<b>191,754,112</b>
Segment liabilities	30,132,072	11,310,783	10,999,047	(8,627,978)	43,993,924
Unallocated liabilities	-	-	-	-	38,060,737
<b>Total liabilities</b>					<b>82,054,661</b>
Other segment information:					
Depreciation and amortisation	17,228,511	4,257,308	1,341,296	-	22,827,115
Write back of provision for doubtful debts	-	(3,221,055)	-	-	(3,221,055)
Surplus on revaluation of leasehold land and buildings	-	-	(239,706)	-	(239,706)
Write back of provision against inventories	-	(546,000)	-	-	(546,000)
Capital expenditure	28,835,282	4,900,143	3,042,055	-	36,777,480

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## 4. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

The following table presents revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group	Segment revenue		Segment results		Other segment information			
	Sales to				Segment assets		Capital expenditure	
	external customers							
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Hong Kong	76,394,750	86,771,962	2,772,788	9,525,707	98,271,418	112,853,375	610,589	254,685
Elsewhere in the PRC	5,462,720	7,808,612	(961,299)	1,114,470	55,813,826	65,177,923	14,159,300	36,492,074
<b>Total in the PRC</b>	<b>81,857,470</b>	<b>94,580,574</b>	<b>1,811,489</b>	<b>10,640,177</b>	<b>154,085,244</b>	<b>178,031,298</b>	<b>14,769,889</b>	<b>36,746,759</b>
Other Asian countries*	19,624,099	8,694,910	(6,924,473)	536,314	9,223,805	1,634,356	2,281,949	30,721
Germany	30,641,332	48,935,737	(1,721,663)	(1,742,920)	2,233,913	950,473	-	-
Other European countries**	48,828,245	52,485,527	(506,241)	1,605,135	8,115,539	10,423,005	-	-
<b>Total in Europe</b>	<b>79,469,577</b>	<b>101,421,264</b>	<b>(2,227,904)</b>	<b>(137,785)</b>	<b>10,349,452</b>	<b>11,373,478</b>	<b>-</b>	<b>-</b>
North America	3,790,675	4,784,130	(242,044)	(285,642)	92,132	375,379	-	-
Others***	2,265,982	4,478,080	(28,458)	170,445	630,737	339,601	-	-
<b>Consolidated</b>	<b>187,007,803</b>	<b>213,958,958</b>	<b>(7,611,390)</b>	<b>10,923,509</b>	<b>174,381,370</b>	<b>191,754,112</b>	<b>17,051,838</b>	<b>36,777,480</b>

\* Other Asian countries mainly comprise Taiwan, Singapore, Japan, Malaysia, Thailand, Indonesia and Korea.

\*\* Other European countries mainly comprise Italy, United Kingdom, France, Netherlands, Austria, Sweden and Spain.

\*\*\* Others mainly comprise South America, Australia and New Zealand.

## 5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	2001	2000
	HK\$	HK\$
<b>Turnover</b>		
Sale of goods	187,007,803	213,958,958
<b>Other revenue</b>		
Interest income	354,640	629,557
Tooling charge income	741,840	175,542
Sale of scrap	886,926	1,700,584
Others	581,441	2,358,296
	<b>2,564,847</b>	<b>4,863,979</b>

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### 6. OTHER OPERATING INCOME, NET

	Group	
	2001	2000
	HK\$	HK\$
Write back of provision for doubtful debts	3,140,000	3,221,055
Surplus on revaluation of leasehold land and buildings	239,706	239,706
Loss on disposal of fixed assets	(38,705)	–
Others	(1,066,826)	(925,737)
	<hr/>	<hr/>
	2,274,175	2,535,024

### 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001	2000
	HK\$	HK\$
Cost of inventories sold	157,108,906	164,909,378
Auditors' remuneration	904,795	810,000
Depreciation	23,565,433	22,579,180
Minimum lease payments under operating leases:		
Land and buildings	2,699,534	2,390,232
Amortisation of technical know-how	247,924	247,935
Staff costs (including directors' other emoluments – note 9):		
Wages and salaries	46,532,063	47,283,156
Pension scheme contributions	515,205	48,694
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	47,047,268	47,331,850
Foreign exchange losses, net	281,300	–
and after crediting:		
Foreign exchange gains, net	–	863,249

### 8. FINANCE COSTS

	Group	
	2001	2000
	HK\$	HK\$
Interest expenses on bank loans and overdrafts wholly repayable within five years	1,756,776	3,459,818
Interest on finance leases	983,915	794,100
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	2,740,691	4,253,918

## Notes to Financial Statements

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### 9. DIRECTORS' REMUNERATION

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

	2001 HK\$	2000 HK\$
Fees:		
Executive directors	–	–
Independent non-executive directors	312,000	312,000
	<hr/> 312,000	<hr/> 312,000
Other emoluments paid to executive directors:		
Salaries	4,802,980	4,802,980
Pension scheme contributions	36,000	4,000
Housing benefits	180,000	180,000
	<hr/> 5,018,980	<hr/> 4,986,980
	<hr/> 5,330,980	<hr/> 5,298,980

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The remuneration of the directors fell within the bands set out below:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$2,000,000	4	4
	<hr/> 6	<hr/> 6

During the year, 8,800,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 18 to 20. No value in respect of the share options granted during the year has been charged to the profit and loss account and included in directors' remuneration.

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### 10. SEVEN HIGHEST PAID EMPLOYEES

The seven highest paid employees during the year included four (2000: four) executive directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2000: three) non-director, highest paid employees are set out below:

	2001 HK\$	2000 HK\$
Basic salaries, allowances and benefits in kind	2,947,767	2,120,800
Pension scheme contributions	59,842	3,000
	<hr/>	<hr/>
	3,007,609	2,123,800

The remuneration of the remaining three non-director, highest paid employees fell within the band set out below:

	Number of employees	
	2001	2000
Nil – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$2,000,000	1	–
	<hr/>	<hr/>
	3	3

During the year, 7,000,000 share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are set out under the heading “Share option scheme” in the Report of the Directors on pages 18 to 20. No value in respect of the share options granted during the year has been charged to the profit and loss account and included in the remuneration of the seven highest paid employees.

### 11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 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.

	Group	
	2001 HK\$	2000 HK\$
Hong Kong tax:		
Provision for the year	925,000	987,610
Prior year's underprovision	57,150	–
Deferred ( <i>note 28</i> )	(710,000)	(135,000)
	<hr/>	<hr/>
	272,150	852,610
PRC tax:		
Provision for the year	130,000	–
Prior year's underprovision	165,645	–
	<hr/>	<hr/>
	295,645	–
Tax charge for the year	<hr/>	<hr/>
	567,795	852,610

## Notes to Financial Statements

31 December 2001

### 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$2,669,712 (2000: net loss of HK\$967,025).

### 13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$10,565,236 (2000: net profit of HK\$6,446,538) and the weighted average of 250,004,800 ordinary shares in issue throughout the two years.

Diluted earnings/(loss) per share for the years ended 31 December 2001 and 2000 have not been shown as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for these years.

### 14. FIXED ASSETS

#### Group

	Leasehold land and buildings HK\$	Leasehold improve- ments HK\$	Plant and machinery HK\$	Furniture, fixtures and office equipment HK\$	Motor vehicles HK\$	Moulds HK\$	Total HK\$
Cost or valuation:							
At beginning of year	27,285,864	18,225,323	77,846,555	14,289,615	2,316,920	61,539,032	201,503,309
Additions	-	4,141,979	5,042,064	2,113,874	438,159	5,315,762	17,051,838
Disposals	-	(9,191)	(1,758,904)	(46,931)	-	-	(1,815,026)
Deficit on revaluation	(336,584)	-	-	-	-	-	(336,584)
<b>At 31 December 2001</b>	<b>26,949,280</b>	<b>22,358,111</b>	<b>81,129,715</b>	<b>16,356,558</b>	<b>2,755,079</b>	<b>66,854,794</b>	<b>216,403,537</b>
Accumulated depreciation:							
At beginning of year	-	10,691,095	40,711,527	8,795,152	1,512,680	45,239,987	106,950,441
Provided during the year	673,095	3,424,644	8,156,789	2,318,411	437,913	8,554,581	23,565,433
Disposals	-	(2,298)	(1,758,904)	(15,119)	-	-	(1,776,321)
Written back on revaluation	(673,095)	-	-	-	-	-	(673,095)
<b>At 31 December 2001</b>	<b>-</b>	<b>14,113,441</b>	<b>47,109,412</b>	<b>11,098,444</b>	<b>1,950,593</b>	<b>53,794,568</b>	<b>128,066,458</b>
Net book value:							
<b>At 31 December 2001</b>	<b>26,949,280</b>	<b>8,244,670</b>	<b>34,020,303</b>	<b>5,258,114</b>	<b>804,486</b>	<b>13,060,226</b>	<b>88,337,079</b>
At 31 December 2000	27,285,864	7,534,228	37,135,028	5,494,463	804,240	16,299,045	94,552,868
Analysis of cost or valuation:							
At cost	-	22,358,111	81,129,715	16,356,558	2,755,079	66,854,794	189,454,257
At 2001 valuation	26,949,280	-	-	-	-	-	26,949,280
	26,949,280	22,358,111	81,129,715	16,356,558	2,755,079	66,854,794	216,403,537
Net book value held under finance leases:							
<b>At 31 December 2001</b>	<b>-</b>	<b>-</b>	<b>20,097,385</b>	<b>1,017,116</b>	<b>446,800</b>	<b>-</b>	<b>21,561,301</b>
At 31 December 2000	-	-	16,577,906	1,021,484	804,240	-	18,403,630

## Notes to Financial Statements

31 December 2001

### 14. FIXED ASSETS (Continued)

The Group's leasehold land and buildings are held under the following lease terms, with geographical locations as follows:

	PRC		Total HK\$
	Hong Kong HK\$	Elsewhere HK\$	
Medium term leases	9,500,000	17,449,280	26,949,280

At 31 December 2001, the Group's leasehold land and buildings situated in Hong Kong were revalued on an open market, existing use basis by FPD Savills (Hong Kong) Limited, a firm of independent property valuers. The Group's leasehold land and buildings situated elsewhere in the PRC were revalued using the depreciated replacement cost method by the same firm of property valuers at 31 December 2001.

Had the Group's leasehold land and buildings been carried at cost less accumulated depreciation, their carrying values would have been included in the financial statements at approximately HK\$29,751,706 (2000: HK\$30,512,861).

The Group's leasehold land and buildings situated in Hong Kong were pledged to secure general banking facilities granted to the Group (note 23 to the financial statements).

### 15. TECHNICAL KNOW-HOW

#### Group

	HK\$
Cost:	
At beginning of year and 31 December 2001	1,239,647
Accumulated amortisation:	
At beginning of year	413,221
Provided during the year	247,924
At 31 December 2001	661,145
Net book value:	
At 31 December 2001	578,502
At 31 December 2000	826,426



# Notes to Financial Statements

31 December 2001

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	58,999,981	58,999,981
Due from subsidiaries	69,532,553	65,422,292
	<b>128,532,534</b>	<b>124,422,273</b>
Provisions against amounts due from subsidiaries	<b>(11,018,779)</b>	<b>(11,018,779)</b>
	<b>117,513,755</b>	<b>113,403,494</b>

The amounts due from subsidiaries are unsecured and interest-free.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Bistec Corporation Limited	Hong Kong	HK\$2,000,000	100	Sale of electronic calculators
Cokeen Development Limited	Hong Kong	HK\$10,000	100	Property holding
E-Dotcom Limited	Hong Kong	HK\$2	100	Investment holding
Gaiki Silicone Products Limited	Hong Kong	HK\$10,000	100	Manufacture of silicone rubber products
Hideki Precision (BVI) Limited	British Virgin Islands	US\$1	100	Intellectual property holding
Hideki Time Corporation Limited	Hong Kong	HK\$2,000,000	100	Sale of alarm clocks
Hi-Tech Investment Holdings Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	Investment holding
Hi-Tech Polymer (China) Inc.	Western Samoa/ PRC	US\$1	100	Manufacture of synthetic rubber products

# Notes to Financial Statements

31 December 2001

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Hi-Tech Polymer Limited	Hong Kong	HK\$10,000	100	Sale of synthetic rubber products
Hi-Tech Precision Plastic Limited (Formerly known as K & P Plastic Industrial Limited)	Hong Kong	HK\$3,000,000	100	Sale of plastic products
Hi-Tech Property Holdings Limited	British Virgin Islands/ PRC	US\$1	100	Property holding
Hi-Tech Silicone Rubber Manufactory Limited	Hong Kong	HK\$1,500,000	100	Sale of silicone rubber products
Hi-Tech Silicone Rubber (Singapore) Pte Ltd.	Republic of Singapore	S\$100,000	100	Dormant
Hong Kong N.C. Tools Center Limited	Hong Kong	HK\$1,700,000	100	Dormant
K & P Group (Holdings) Limited	British Virgin Islands/ Hong Kong	US\$1,238,545	100	Investment holding
K. S. (China) Electronics Manufactory Limited	Hong Kong	HK\$2	100	Investment holding
Mars Field Limited	British Virgin Islands/ PRC	US\$1	100	Manufacture of silicone rubber products, electronic calculators, alarm clocks and plastic products
Share Mate Development Limited	Hong Kong	HK\$2	100	Dormant

## Notes to Financial Statements

31 December 2001

### 16. INTERESTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Shenzhen Jiancheng Electronic Co., Ltd. ("Shenzhen Jiancheng")	PRC	HK\$12,000,000	*	Manufacture and sale of electronic calculators and alarm clocks
Smooth Path Limited	British Virgin Islands	US\$1	100	Dormant
Technology Trend International Limited	British Virgin Islands/ Republic of Singapore	US\$50,000	100	Sale of silicone rubber, synthetic rubber and plastic products and liquid crystal displays
TQL (BVI) Limited	British Virgin Islands	US\$897,436	100	Investment holding
TQL Technology Limited	Hong Kong	HK\$7,000,000	100	Manufacture and sale of liquid crystal displays
Webborton Investments Limited	British Virgin Islands/Hong Kong	US\$1	100	Investment holding

Except for K & P Group (Holdings) Limited, all the above subsidiaries are indirectly held by the Company.

\* Shenzhen Jiancheng is registered as a co-operative joint venture company under the laws of the PRC. Pursuant to the co-operative joint venture contract with the PRC joint venture partner, the Group contributed all of the registered capital of Shenzhen Jiancheng. The PRC joint venture partner is entitled to certain monthly and annual fees regardless of the amount of profit or loss made by Shenzhen Jiancheng and the Group is entitled to all of the profits, and is liable for all of the losses, of Shenzhen Jiancheng after payment of such fees to the PRC joint venture partner. The initial term of the joint venture expires on 25 January 2009 and can be extended with the consent of the joint venture partners and the approval of the relevant PRC government authority. On the expiry of the initial term of the joint venture, the joint venture agreement provides that ownership of all of the immovable assets of the joint venture will revert to the PRC joint venture partner while other assets will initially be used to settle the wages of all employees and all of the liabilities of Shenzhen Jiancheng, and any remaining balance will be distributed to the Group.

## Notes to Financial Statements

31 December 2001

### 17. LONG TERM INVESTMENTS

	Group	
	2001 HK\$	2000 HK\$
At cost:		
Unlisted equity investment	–	4,668,000
Equity investments listed in Hong Kong	5,023,000	355,000
Club membership	600,000	–
	5,623,000	5,023,000
Market value of listed equity investments included above at cost	21,164,459	452,046

The market values of the Group's long term listed equity investments at the date of approval of these financial statements were approximately HK\$34,699,606.

### 18. INVENTORIES

	Group	
	2001 HK\$	2000 HK\$
Raw materials	14,073,503	28,902,262
Work in progress	6,860,728	8,909,305
Finished goods	2,088,873	4,838,946
	23,023,104	42,650,513
Less: Provisions for slow-moving inventories	(2,134,865)	(7,586,960)
	20,888,239	35,063,553

There were no inventories carried at net realisable value at the balance sheet date.

### 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Prepayments	476,165	348,308	148,958	149,042
Deposits and other receivables	4,442,579	6,221,183	894	70,294
	4,918,744	6,569,491	149,852	219,336

## Notes to Financial Statements

31 December 2001

### 20. TRADE AND BILLS RECEIVABLES

An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2001 HK\$	2000 HK\$
Within 90 days	27,465,627	27,371,889
Between 91 to 180 days	3,893,948	4,964,662
Over 180 days	1,381,778	3,174,042
	32,741,353	35,510,593

The Group's trading terms with its customers are largely on credit. Invoices are normally payable within 60 days of issuance, except for certain well established customers, where the terms are extended from 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

### 21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Cash and bank balances	12,154,678	9,168,539	1,139	114,748
Time deposits	4,090,562	–	–	–
	16,245,240	9,168,539	1,139	114,748

### 22. INTEREST-BEARING LOANS AND BORROWINGS

	Notes	Group	
		2001 HK\$	2000 HK\$
Bank overdrafts		–	8,585,824
Current portion of bank loans		24,612,592	15,397,717
		24,612,592	23,983,541
Current portion of finance lease payables	25	6,623,497	5,471,461
		31,236,089	29,455,002

## Notes to Financial Statements

31 December 2001

### 23. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2001	2000
	HK\$	HK\$
Unsecured:		
Bank overdrafts	–	4,297,362
Trust receipt loans	12,521,313	4,088,663
Bank loans	1,352,339	–
Instalment loan	631,067	1,461,188
	<b>14,504,719</b>	<b>9,847,213</b>
Secured:		
Bank overdrafts	–	4,288,462
Trust receipt loans	5,777,755	7,556,467
Money market loan	4,000,000	2,000,000
Mortgage loan	1,695,288	2,004,116
	<b>25,977,762</b>	<b>25,696,258</b>
Portion due within one year, classified as current liabilities (note 22)	<b>(24,612,592)</b>	<b>(23,983,541)</b>
Long term portion	<b>1,365,170</b>	<b>1,712,717</b>
The bank borrowings are repayable:		
Within one year or on demand	24,612,592	23,983,541
In the second year	347,355	1,647,051
In the third to fifth years, inclusive	1,017,815	65,666
	<b>25,977,762</b>	<b>25,696,258</b>

The secured bank borrowings were secured by fixed charges over the Group's medium term leasehold land and buildings in Hong Kong with a net book value of HK\$9,500,000 (2000: HK\$9,500,000) and over a bank deposit amounting to HK\$5,049,213 (2000: HK\$5,039,642).

### 24. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	Group	
	2001	2000
	HK\$	HK\$
Within 90 days	19,194,482	13,868,120
Between 91 to 180 days	714,408	3,554,626
Over 180 days	409,164	262,012
	<b>20,318,054</b>	<b>17,684,758</b>

## Notes to Financial Statements

31 December 2001

### 25. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its business. These leases are classified as finance leases and have remaining lease terms ranging from 1 to 3 years.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Amounts payable:				
Within one year	7,188,378	6,178,366	6,623,497	5,471,461
In the second year	4,008,492	5,014,907	3,824,035	4,422,124
In the third to fifth years, inclusive	945,379	1,913,734	921,511	1,852,828
Total minimum finance lease payments	12,142,249	13,107,007	11,369,043	11,746,413
Future finance charges	(773,206)	(1,360,594)		
Total net finance lease payables	11,369,043	11,746,413		
Portion classified as current liabilities (note 22)	(6,623,497)	(5,471,461)		
Long term portion	4,745,546	6,274,952		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

### 26. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Accrued liabilities	12,630,357	12,031,351	64,700	65,801
Other payables	1,965,793	2,054,680	59,100	190,018
	14,596,150	14,086,031	123,800	255,819

# Notes to Financial Statements

31 December 2001

## 27. DUE TO A RELATED COMPANY

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

## 28. DEFERRED TAX

	Group	
	2001 HK\$	2000 HK\$
At beginning of year	2,067,000	2,202,000
Credit for the year ( <i>note 11</i> )	(710,000)	(135,000)
At 31 December	1,357,000	2,067,000

Deferred tax related principally to the timing differences arising from accelerated depreciation allowances.

The principal components of the Group's net deferred tax asset position not recognised in the financial statements are as follows:

	2001 HK\$	2000 HK\$
Accelerated depreciation allowances	4,124,267	4,196,197
Tax losses	(5,560,450)	(5,031,986)
	(1,436,183)	(835,789)

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, the amount of potential tax thereon has not been quantified.

The Company did not have any significant unprovided deferred tax at the balance sheet date (2000: Nil).

## 29. SHARE CAPITAL

### Shares

	Group and Company	
	2001 HK\$	2000 HK\$
Authorised:		
900,000,000 shares of HK\$0.10 each	90,000,000	90,000,000
Issued and fully paid:		
250,004,800 shares of HK\$0.10 each	25,000,480	25,000,480



## Notes to Financial Statements

31 December 2001

### 29. SHARE CAPITAL (Continued)

#### Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 18 to 20.

At the beginning of the year, there were 2,200,000 and 4,500,000 options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during the periods from 1 March 1998 to 31 March 2001 and 8 October 1998 to 7 October 2001, respectively. The subscription price payable upon the exercise of these options was HK\$0.80 and HK\$0.315, respectively, subject to adjustment. These options lapsed and were cancelled during the year.

During the year, the Company granted a total of 17,300,000 share options under the Scheme. The share options granted entitle the holders to subscribe for shares of the Company at any time during the period from 12 July 2001 to 11 July 2004. The subscription price per share payable upon the exercise of these options was HK\$0.16, subject to adjustment. At the balance sheet date, these options remained outstanding. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 17,300,000 additional shares of HK\$0.10 each and proceeds of approximately HK\$2,768,000.

#### Warrants

On 16 March 2001, the Company issued 30,000,000 warrants at an issue price of HK\$0.05 each to independent investors. Each of these warrants entitles the holders thereof to subscribe for one new ordinary shares of the Company of HK\$0.10 at a subscription price of HK\$0.30 per share payable in cash and subject to adjustment, from March 2001 to March 2003. At the balance sheet date, these warrants remained outstanding and the exercise in full of them would, under the present capital structure of the Company, result in the issue of 30,000,000 additional shares of HK\$0.10 each and proceeds of approximately HK\$9,000,000.

# Notes to Financial Statements

31 December 2001

## 30. RESERVES

### Group

	Share premium account HK\$	Warrant subscription reserve HK\$	Contributed surplus HK\$	Fixed asset revaluation reserve HK\$	Retained profits HK\$	Total HK\$
At 1 January 2000	49,611,281	-	660,651	4,706,140	35,198,582	90,176,654
Elimination of goodwill arising from acquisition of subsidiaries	-	-	-	-	(11,924,221)	(11,924,221)
Net profit for the year	-	-	-	-	6,446,538	6,446,538
At 31 December 2000 and at 1 January 2001	49,611,281	-	660,651	4,706,140	29,720,899	84,698,971
Surplus on revaluation	-	-	-	96,805	-	96,805
Placement of warrants	-	1,500,000	-	-	-	1,500,000
Warrant issue expenses	-	(110,525)	-	-	-	(110,525)
Net loss for the year	-	-	-	-	(10,565,236)	(10,565,236)
At 31 December 2001	49,611,281	1,389,475	660,651	4,802,945	19,155,663	75,620,015

The contributed surplus of the Group arose as a result of the Group's reorganisation and represents the difference between the nominal value of the share capital of the former holding company of the Group, K & P Group (Holdings) Limited, prior to the Group's reorganisation in preparation for the listing of the Company's shares in 1996, over the nominal value of the share capital of the Company issued in the exchange therefor, less the amount capitalised to pay up the nil-paid shares issued on the incorporation of the Company.

Goodwill amounting to HK\$11,924,221 arising on the acquisition of subsidiaries remain eliminated against retained profits as explained in note 2 to the financial statements.

### Company

	Share premium account HK\$	Warrant subscription reserve HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2000	49,611,281	-	49,999,981	(10,162,958)	89,448,304
Net loss for the year	-	-	-	(967,025)	(967,025)
At 31 December 2000 and at 1 January 2001	49,611,281	-	49,999,981	(11,129,983)	88,481,279
Placement of warrants	-	1,500,000	-	-	1,500,000
Warrant issue expenses	-	(110,525)	-	-	(110,525)
Profit for the year	-	-	-	2,669,712	2,669,712
At 31 December 2001	49,611,281	1,389,475	49,999,981	(8,460,271)	92,540,466

## Notes to Financial Statements

31 December 2001

### 30. RESERVES (Continued)

#### Company (Continued)

The contributed surplus of the Company represents the difference between the underlying consolidated net assets of K & P Group (Holdings) Limited and its subsidiaries at the date on which the Group's reorganisation became effective, over the nominal value of the share capital of the Company issued in exchange therefor, less the amount capitalised to pay up the nil-paid shares issued on the incorporation of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

### 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2001 HK\$	2000 HK\$
Profit/(loss) from operating activities	(7,256,750)	11,553,066
Interest income	(354,640)	(629,557)
Depreciation	23,565,433	22,579,180
Amortisation of technical know-how	247,924	247,935
Loss on disposal of fixed assets	38,705	–
Surplus on revaluation of leasehold land and buildings charged to the profit and loss account	(239,706)	(239,706)
Write back of provisions against slow-moving inventories	–	(546,000)
Write back of provision for doubtful debts	(3,140,000)	(3,221,055)
Decrease in inventories	14,175,314	1,005,229
Decrease in prepayments, deposits and other receivables	1,535,789	742,467
Decrease/(increase) in trade and bills receivables	5,909,240	(4,830,010)
Increase/(decrease) in trade payables, accrued liabilities and other payables	3,239,577	(2,189,322)
Decrease in an amount due to a related company	(4,829,375)	(997,719)
Net cash inflow from operating activities	32,891,511	23,474,508

# Notes to Financial Statements

31 December 2001

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Acquisition of subsidiaries

	2001 HK\$	2000 HK\$
Net assets acquired:		
Fixed assets	–	8,176,468
Inventories	–	2,869,403
Cash and bank balances	–	707,902
Trade receivables	–	2,513,062
Prepayments and other receivables	–	25,562
Finance lease payables	–	(3,389,679)
Trade payables	–	(2,285,723)
Bank overdrafts and trust receipt loans	–	(4,730,249)
Amount due to a related company	–	(5,410,967)
	–	(1,524,221)
Goodwill on acquisition	–	11,924,221
	–	10,400,000
Satisfied by:		
Deposit paid in prior year	–	5,000,000
Expenses in connection with acquisition of subsidiaries	–	400,000
Outstanding consideration payable by cash	–	5,000,000
	–	10,400,000

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

	2001 HK\$	2000 HK\$
Cash and bank balances acquired	–	707,902
Bank overdrafts and trust receipt loans assumed	–	(4,730,249)
Expenses paid in acquisition of subsidiaries	–	(400,000)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(4,422,347)

## Notes to Financial Statements

31 December 2001

### 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Acquisition of subsidiaries (Continued)

The subsidiaries acquired in 2000 contributed HK\$4,079,405 to the Group's net operating cash flows, paid HK\$603,073 in respect of the net returns on investments and servicing of finance, paid HK\$176,123 in respect of investing activities and paid HK\$2,625,573 in respect of financing activities for the year ended 31 December 2000.

The subsidiaries acquired in 2000 contributed HK\$2,459,364 to the consolidated profit after tax for the year ended 31 December 2000.

#### (c) Analysis of changes in financing during the year

	Issued capital and share premium account HK\$	Warrant subscription reserve HK\$	Finance lease payables HK\$	Money market loan, instalment loan and mortgage loan HK\$
Balance at 1 January 2000	74,611,761	–	4,178,764	9,129,517
Inception of finance lease contracts	–	–	10,225,225	–
Acquisition of subsidiaries	–	–	3,389,679	–
Net cash outflow from financing	–	–	(6,047,255)	(5,664,213)
Increase in money market loans classified as cash and cash equivalents	–	–	–	2,000,000
Balance at 31 December 2000 and at 1 January 2001	74,611,761	–	11,746,413	5,465,304
Inception of finance lease contracts	–	–	5,909,238	–
Net cash inflow/(outflow) from financing	–	1,389,475	(6,286,608)	4,213,390
Decrease in money market loans classified as cash and cash equivalents	–	–	–	(2,000,000)
<b>Balance at 31 December 2001</b>	<b>74,611,761</b>	<b>1,389,475</b>	<b>11,369,043</b>	<b>7,678,694</b>

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

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$5,909,238 (2000:HK\$10,225,225).

## Notes to Financial Statements

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### 32. RELATED PARTY TRANSACTIONS

During the year, the Group did not have any material transactions with related parties.

In 2000, the Group had the following transactions with related parties.

- (a) The Group had transactions with TQL Technology Limited ("TQL"), a company in which Lai Pei Wor, an executive director of the Company, had a beneficial interest during the year ended 31 December 2000 up to the date of it becoming a subsidiary of the Company (see note 32(b)). Further details of these related party transactions with TQL are set out below:

	Notes	2001 HK\$	2000 HK\$
Purchases of liquid crystal displays	(i)	–	897,738
Rental income received	(ii)	–	(5,400)

Notes:

- (i) The purchases were made at prices based on the costs of inventories sold plus a margin.
- (ii) The rental income was calculated by reference to the then open market rentals.
- (b) On 26 January 2000, K & P Group (Holdings) Limited ("KPGHL"), a wholly-owned subsidiary of the Company, completed the purchase from Polyhope Inc., a company in which Lai Pei Wor and Chiu Hang Tung, have beneficial interests, of the entire equity interest in TQL (BVI) Limited, the holding company of TQL, for a cash consideration of HK\$10,000,000. Pursuant to the agreement, a sum of HK\$5,000,000, which represented the outstanding debt of TQL (BVI) Limited due to Polyhope Inc. at the date of the agreement, was also assigned to KPGHL for a consideration of HK\$5,000,000. The total consideration represented a 7.5 times price earnings multiple of the guaranteed profit attributable to the shareholders of TQL (BVI) Limited for the year ended 31 December 1999 or 2000.

All of the above related party transactions constituted connected transactions for the year ended 31 December 2000 as defined under the Hong Kong Listing Rules.

### 33. CONTINGENT LIABILITIES

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bills discounted with recourse	2,286,609	92,820	–	–
Guarantee of loan facility granted to subsidiaries	–	–	82,952,567	63,443,495
	2,286,609	92,820	82,952,567	63,443,495

## Notes to Financial Statements

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### 34. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and factories under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001 HK\$	2000 HK\$
Within one year	488,729	37,560
In the second to fifth years, inclusive	603,552	500
	<hr/>	<hr/>
	1,092,281	38,060

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee stated above, have been restated to accord with the current year's presentation.

### 35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the balance sheet date:

	Group	
	2001 HK\$	2000 HK\$
Capital commitments in respect of purchases of leasehold land and buildings:		
Authorised, but not contracted for	–	740,447

At the balance sheet date, the Company did not have any significant capital commitments.

### 36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

### 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2002.