1. Group reorganisation and basis of presentation

The Company

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 23 May 2001 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of Fu Cheong International Holdings Limited is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

On incorporation, the Company had an authorised share capital of HK$200,000 divided into 20,000,000 shares of HK$0.01 each. On 29 May 2001, 10,000,000 shares were allotted and issued nil paid. Apart from the foregoing, no other transactions were carried out by the Company during the period from 23 May 2001 (date of incorporation) to 31 December 2001. Accordingly, the Company has not recorded any profits or losses for the period and had no cash flows.

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 31 December 2000.

Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 March 2002, the Company became the holding company of the companies now comprising the Group on 6 March 2002 (the "Group Reorganisation"). This was accomplished by acquiring the entire issued share capital of Lassie Palace Limited ("Lassie Palace"), which is, at the date of this report, the intermediate holding company of the subsidiaries as set out below, in consideration of and in exchange for the allotment and issue of 10,000,000 ordinary shares of HK$0.01 each in the share capital of the Company, credited as fully paid, to the former shareholders of Lassie Palace, and the existing 10,000,000 nil paid shares, credited as fully paid at par.

1. Group reorganisation and basis of presentation *(continued)*

Particulars of the subsidiaries which were acquired by the Company pursuant to the Group Reorganisation are set out below:

Name	Place of incorporation/ registration and principal operations	Issued and fully paid up share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lassie Palace Limited	British Virgin Islands	US$1,000	100%	–	Investment holding
Ford Reach (H.K.) Limited	Hong Kong	HK$1,000	–	100%	Dormant
Fortune (Conductive Carbon) PCB Factory Company Limited	British Virgin Islands	US$100	–	100%	Trading of printed circuit boards ("PCBs")
Horn Kingdom Limited	British Virgin Islands	US$1	–	100%	Provision of technical engineering and consultancy services
Fortune (Hong Kong) PCB Factory Company Limited	Hong Kong	HK$1,000,000	–	100%	Investment holding
Dongguan Fortune Circuit Factory Company Limited ("Dongguan Fortune")	People's Republic of China ("PRC")	*HK$8,400,000	–	100%	Manufacture of PCBs

* *The registered capital of Dongguan Fortune was increased from HK$8,400,000 in year 2000 to HK$11,400,000 during the year. The additional capital of HK$3,000,000 has not been paid up as at 31 December 2001 and is disclosed as a capital commitment in note 22 to the financial statements.*

Further details of the Group Reorganisation are set out in note 19 to the financial statements and in the Company's prospectus dated 13 March 2002.

1. Group reorganisation and basis of presentation *(continued)*

Basis of presentation

The Group Reorganisation involved companies under common control. As the Group Reorganisation took place on 6 March 2002, according to the Hong Kong Statement of Standard Accounting Practice No. 2.127 "Accounting for Group Reconstructions", the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing from the year ending 31 December 2002. Nevertheless, for the benefit of shareholders, supplementary pro forma combined financial statements for the current year and the related notes thereto have also been presented in these financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of the subsidiaries on 6 March 2002. The pro forma combined results of the Group for the years ended 31 December 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation/establishment, where this is a shorter period. The supplementary pro forma combined balance sheets as at 31 December 2000 and 2001 have been prepared on the basis that the current Group structure was in place at those dates.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group Reorganisation had not been completed and, accordingly, the Group did not legally exist until 6 March 2002, in the opinion of the directors of the Company, the presentation of such supplementary pro forma combined financial statements prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's profit and its state of affairs as a whole.

2. Corporate information

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 1 above. There were no changes in the nature of the principal activities of the Company's subsidiaries during the year.

The Company is a subsidiary of Advanced Technology International Holdings Limited, a company incorporated in the British Virgin Islands. The directors considered that I. World Limited, a company incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

3. Impact of new and revised Hong Kong Statements of Standard Accounting Practice

The following recently-issued and revised Hong Kong Statements of Standard Accounting Practice ("HKSSAPs") and related Interpretations are effective for the current year's financial statements:

- HKSSAP 9 (Revised) : Events after the balance sheet date
- HKSSAP 14 (Revised) : Leases
- HKSSAP 18 (Revised) : Revenue
- HKSSAP 26 : Segment reporting
- HKSSAP 28 : Provisions, contingent liabilities and contingent assets
- HKSSAP 29 : Intangible assets
- HKSSAP 30 : Business combinations
- HKSSAP 31 : Impairment of assets
- HKSSAP 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 HKSSAPs 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 adopting these HKSSAPs and Interpretations, are summarised as follows:

HKSSAP 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. This HKSSAP has had no significant impact on these financial statements.

HKSSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The principal impact of this revised HKSSAP on the preparation of these financial statements is that the total future minimum lease payments under non-cancellable operating leases are now disclosed, which are further detailed in note 22 to the financial statements.

HKSSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to HKSSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements. This HKSSAP has had no significant impact on these financial statements.

3. Impact of new and revised Hong Kong Statements of Standard Accounting Practice *(continued)*

HKSSAP 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. No segmental information was disclosed as all the Group's turnover were generated from the sales of printed circuit boards to Hong Kong based consumer electronic products manufacturers with production facilities in Guangdong Province, the PRC. Accordingly, this HKSSAP has had no significant impact on these financial statements.

HKSSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This HKSSAP has had no significant impact on the preparation of these financial statements.

HKSSAP 29 prescribes the recognition and measurement criteria for intangible assets together with the disclosure requirements. This HKSSAP has had no significant impact on these financial statements.

HKSSAP 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. This HKSSAP has had no significant impact on these financial statements.

HKSSAP 31 prescribes the recognition and measurement criteria for impairments of assets. This HKSSAP has had no significant impact on these financial statements.

HKSSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. This HKSSAP has had no significant impact on these financial statements.

4. Basis of preparation and summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with HKSSAPs, accounting principles generally accepted in Hong Kong, subject to the pro forma basis of presentation as set out in note 1 above, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

4. Basis of preparation and 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 or 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.

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 investments in subsidiaries are stated at cost less any impairment losses.

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.

4. Basis of preparation and summary of significant accounting policies *(continued)*

Fixed assets and depreciation

Fixed assets are stated at cost 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 the fixed asset.

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

Leasehold improvements	10%
Machinery and equipment	20%
Moulds	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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.

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 manufacturing overheads, and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any estimated further costs expected to be incurred to completion and disposal.

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 for 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.

4. Basis of preparation and summary of significant accounting policies *(continued)*

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

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 indentifiable 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, commencing from the date when the products are put into commercial production.

Operating leases

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.

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.

4. Basis of preparation and summary of significant accounting policies *(continued)*

Foreign currencies *(continued)*

On combination, the financial statements of overseas subsidiaries 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.

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 in Hong Kong. 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.

In addition, retirement benefits are paid by a subsidiary registered in the People's Republic of China (the "PRC") to the PRC employees who, at their own discretion, contribute to the retirement benefit plans managed by the relevant authorities of the provinces/municipalities in the PRC in which they operate. The retirement benefits paid by the PRC subsidiary are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC and are charged to the profit and loss account as incurred. As at 31 December 2001, the Group had no significant obligations for long service payments to its employees, pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Dividends

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

4. Basis of preparation and summary of significant accounting policies *(continued)*

Dividends *(continued)*

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

Cash equivalents

For the purpose of the combined 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 and bank balances represent assets which are not restricted as to use.

5. Turnover

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

No segmental information was disclosed as all the Group's turnover were generated from the sales of printed circuit boards to Hong Kong based consumer electronic products manufacturers with production facilities in Guangdong Province, the PRC.

6. Profit from operating activities

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

	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Cost of inventories sold	**143,657**	112,558
Staff costs (excluding directors' remuneration – note 7):		
Salaries and allowances	**7,045**	6,212
Retirement benefits scheme contributions	**90**	135
	7,135	6,347
Depreciation	**9,099**	7,715
Minimum lease payments under operating leases in respect of land and buildings	**828**	720
Auditors' remuneration	**750**	600
Research and development costs	**287**	409
Loss on disposal of fixed assets	**–**	414
Exchange losses, net	**556**	177
Bad debts written off	**–**	5
Interest income	**(16)**	(3)

Cost of inventories sold includes HK$14,479,000 (2000: HK$12,099,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. Directors' remuneration

Directors' remuneration disclosed pursuant to the requirements of the Rules Governing the Listing of Securities ("the Listing Rules") on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Fees	**–**	–
Other emoluments – executive directors:		
Basic salaries, allowances and benefits in kind	**3,639**	3,139
Retirement benefits scheme contributions	**29**	–
	3,668	3,139

No fees nor other emoluments were paid to the independent non-executive directors during the year.

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

	Number of directors	
	2001	2000
Nil – HK$1,000,000	**4**	1
HK$2,500,001 – HK$3,000,000	**1**	1
	5	2

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

8. Five highest paid employees

The five highest paid employees of the Group during the year included three (2000: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2000: three) non-director, highest paid employees, who fell within the nil – HK$1,000,000 band, is analysed below:

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Basic salaries, allowances and benefits in kind	**599**	602
Retirement benefits scheme contributions	**27**	–
	626	602

9. Finance costs

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	**216**	194
Instalment loan	**94**	410
	310	604

10. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2000: Nil).

Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Current year provision for elsewhere	**4,790**	3,680

There was no significant unprovided deferred tax liability in respect of the year (2000: Nil) for which provision has not been made.

11. Dividends

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends were paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as set out in note 1 to the financial statements.

12. Earnings per share

The calculation of pro forma basic earnings per share is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the year of approximately HK$40,563,000 (2000: HK$30,771,000) and the pro forma weighted average of 1,020,000,000 (2000: 1,020,000,000) shares deemed to have been issued throughout the year, as set out in note 19 to the financial statements.

There were no potential dilutive ordinary shares in existence for the two years ended 31 December 2001, and accordingly, no pro forma diluted earnings per share has been presented.

13. Fixed assets

Group

	Leasehold improve-ments	Machinery and equipment	Moulds	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 1)*	*(note 1)*	*(note 1)*	*(note 1)*	*(note 1)*
Cost:						
At beginning of year	3,169	17,781	26,106	1,759	396	49,211
Additions	42	1,681	10,525	102	73	12,423
At 31 December 2001	3,211	19,462	36,631	1,861	469	61,634
Accumulated depreciation:						
At beginning of year	678	8,574	13,754	952	237	24,195
Provided during the year	319	3,107	5,228	365	80	9,099
At 31 December 2001	997	11,681	18,982	1,317	317	33,294
Net book value:						
At 31 December 2001	2,214	7,781	17,649	544	152	28,340
At 31 December 2000	2,491	9,207	12,352	807	159	25,016

14. Inventories

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Raw materials	**7,159**	4,189
Work in progress	**504**	447
	7,663	4,636

15. Accounts receivable

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Within 30 days	**17,891**	8,275
Between 31 to 60 days	**15,997**	3,365
Between 61 to 180 days	**14,012**	2,249
	47,900	13,889

The credit period granted by the Group to customers is generally of 30 to 60 days. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted.

16. Due from a director

Particulars of an amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group

	At 31 December 2001	**Maximum amount outstanding during the year**	**At 1 January 2001**
	HK$'000	*HK$'000*	*HK$'000*
	(note 1)		*(note 1)*
Mr. Ho Wing Cheong	–	4,490	4,490

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

17. Interest-bearing bank borrowings

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Trust receipt loans, secured	**7,623**	740
Instalment loan, secured	**–**	4,106
	7,623	4,846
Trust receipt loans repayable within one year	**7,623**	740
Instalment loan is repayable:		
Within one year	**–**	248
In the second year	**–**	274
In the third to fifth years, inclusive	**–**	965
Beyond five years	**–**	2,619
	–	4,106
	7,623	4,846
Portion classified as current liabilities	**(7,623)**	(988)
Non-current portion	**–**	3,858

The instalment loan bore interest at 0.5% above Hong Kong prime rate per annum and was repayable by 180 monthly instalments, which commenced on 27 September 1996.

The instalment loan was drawn by the Company on behalf of Mr. Ho Wing Cheong, a director of the Company, and was secured by certain properties owned by Mr. Ho Wing Cheong. In July 2001, the instalment loan was fully settled and the pledged properties were released accordingly.

18. Accounts payable

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Within 30 days	**11,095**	3,599
Between 31 to 60 days	**2,423**	1,692
Between 61 to 180 days	**1,003**	3,857
	14,521	9,148

19. Share capital

The following movements in the Company's authorised and issued share capital took place during the period from 23 May 2001 (date of incorporation) to the date of approval of these financial statements.

(a) On incorporation, the authorised share capital of the Company was HK$200,000 divided into 20,000,000 shares of HK$0.01 each.

(b) On 29 May 2001, 10,000,000 shares were allotted and issued nil paid.

(c) On 6 March 2002, the authorised share capital of the Company was increased from HK$200,000 to HK$100,000,000 by the creation of a further 9,980,000,000 additional shares of HK$0.01 each, ranking pari passu with the existing share capital of the Company.

(d) On 6 March 2002, as part of the Group Reorganisation described in note 1 to the financial statements, the Company; (i) issued an aggregate of 10,000,000 new shares of HK$0.01 each credited as fully paid at par; and (ii) credited as fully paid at par the existing 10,000,000 shares issued nil paid on 29 May 2001 as set out in (b) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Lassie Palace.

(e) On 6 March 2002, a total of 1,000,000,000 shares of HK$0.01 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their then respective shareholdings at the close of business on 6 March 2002, by way of the capitalisation of the sum of HK$10,000,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new issue and placing of shares to the public as detailed in (f) below.

19. Share capital *(continued)*

(f) On 25 March 2002, a total of 180,000,000 shares of HK$0.01 each were issued to the public at a price of HK$0.20 each for a total cash consideration, before related expenses, of HK$36,000,000.

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

	Notes	Number of shares issued	Par value HK$'000
Shares allotted and issued nil paid	*(b)*	**10,000,000**	–
Shares issued as consideration for the acquisition of the entire share capital of Lassie Palace	*(d)*	**10,000,000**	100
Application of contributed surplus to pay up nil paid shares	*(d)*	**–**	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	*(e)*	**1,000,000,000**	–
Proforma issued share capital as at 31 December 2000 and 2001		**1,020,000,000**	200
New issue and placing of shares to the public	*(f)*	**180,000,000**	1,800
Capitalisation of the share premium account as set out above	*(e)*	**–**	10,000
Share capital at the date of approval of the financial statements		**1,200,000,000**	12,000

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 15 to 16.

No options had been granted or agreed to be granted under the Scheme up to the date of approval of these financial statements.

20. Reserves

Group

	Exchange reserves	**Contributed surplus**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 1)*	*(note 1)*	*(note 1)*
At 1 January 2000	(259)	801	24,750	25,292
Profit for the year	–	–	30,771	30,771
Dividends	–	–	(36,480)	(36,480)
At 31 December 2000 and at 1 January 2001	(259)	801	19,041	19,583
Profit for the year	–	–	40,563	40,563
Dividends	–	–	(13,000)	(13,000)
At 31 December 2001	(259)	801	46,604	47,146

The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to Group Reorganisation, as set out in note 1 to the financial statements over the nominal value of the shares in the Company issued in exchange therefor.

21. Notes to combined cash flow statement

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

	2001	2000
	HK$'000	*HK$'000*
	(note 1)	*(note 1)*
Profit from operating activities	**45,663**	35,055
Interest income	**(16)**	(3)
Depreciation	**9,099**	7,715
Loss on disposal of fixed assets	**–**	414
Increase in inventories	**(3,027)**	(51)
Decrease/(increase) in accounts receivable	**(34,011)**	11,195
Increase in prepayments, deposits and other receivables	**(2,257)**	–
Decrease/(increase) in an amount due from a director	**4,490**	(1,165)
Increase in trust receipt loans with original maturity of more than three months	**7,623**	–
Increase/(decrease) in accounts payable	**5,373**	(4,131)
Increase in accrued liabilities and other payables	**180**	5,413
Net cash inflow from operating activities	**33,117**	54,442

(b) Analysis of changes in financing during the year

	Bank loan
	HK$'000
	(note 1)
At 1 January 2000	4,311
Net cash outflow from financing	(205)
At 31 December 2000 and 1 January 2001	4,106
Net cash outflow from financing	(4,106)
At 31 December 2001	–

22. Commitments

As at the balance sheet date, the Group had the following outstanding commitments not provided for in the financial statements:

		Group	
		2001	2000
		HK$'000	*HK$'000*
(a)	Capital commitment in respect of capital contribution to a subsidiary established in the PRC	**3,000**	–

(b) Total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**651**	786
In the second to fifth years, inclusive	**1,942**	2,201
Over five years	**–**	252
	2,593	3,239

HKSSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than the payments to be made during the next year only as was previously required.

The Company did not have any significant commitments at the balance sheet date.

23. Contingent liabilities

At the balance sheet date, the Company provided corporate guarantees to banks in connection with facilities granted to its subsidiaries up to the extent of HK$20,000,000. At the balance sheet date, banking facilities were utilised to the extent of HK$7,623,000.

The Group did not have any significant contingent liabilities at the balance sheet date.

24. Related party transactions

During the year, the Group had material transactions with the following related parties:

	Notes	2001 HK$'000	2000 HK$'000
Sales to a substantial shareholder of the Company	*(i)*	**5,693**	5,712
Rent paid to a related company	*(ii)*	**265**	125
Secretarial and consultancy service fees paid to a related company	*(iii)*	**147**	20
Purchase from a fellow subsidiary	*(iv)*	**9,688**	–

Notes:

(i) The Group sold printed circuit boards to a subsidiary of a substantial shareholder of the Company on the same terms and conditions as the Group sold its products to independent third parties.

(ii) The Group paid rent to a company which is owned by two executive directors of the Company for the lease of office premises. The Company's directors considered that the rental was calculated by reference to open market rentals.

(iii) The Group paid secretarial and consultancy service fees to a company which is owned by an executive director of the Company. The Company's directors considered that the fees were calculated on the same terms and conditions to those granted to other clients of the related party.

(iv) The Group purchased laminated sheets from a related party which became a fellow subsidiary of the Company on 31 May 2001. The Company's directors considered that the purchases were made on the same terms and conditions offered to other customers by the related party.

The above related party transactions would constitute connected transactions, as defined under the Listing Rules, should the Company's shares become listed on the Stock Exchange at the date of these transactions.

25. Post balance sheet events

In addition to the matters set out in note 19 to the financial statements, subsequent to the balance sheet date, the shares of the Company have been listed on the Stock Exchange on 27 March 2002.

25. Post balance sheet events *(continued)*

A condensed pro forma adjusted combined balance sheet of the Group as at 31 December 2001, which is based on the audited net assets of the Group as at 31 December 2001 and adjusted as if the public listing of the Company's shares as set out in note 19(f) had taken place on 31 December 2001, is presented below:

	Audited combined net assets at 31 December 2001	**Pro forma adjustment: New issue and placing of shares**	**Pro forma combined net assets at 31 December 2001**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	28,340	–	28,340
Current assets	62,236	27,000	89,236
Current liabilities	(43,230)	–	(43,230)
Net current assets	19,006	27,000	46,006
Net assets	47,346	27,000	74,346
Issued share capital	200	1,800	2,000
Reserves	47,146	25,200	72,346
	47,346	27,000	74,346

26. Comparative amounts

As further explained in note 3 to the financial statements, due to the adoption of revised HKSSAP 14 during the current year, the supporting note for operating lease commitments was revised to comply with the new requirements. The comparative amounts of the corresponding note and certain comparative amounts in the financial statements have been revised/reclassified to conform with the current year's presentation.

27. Approval of the financial statements

The financial statements were approved and authorised for issue by the directors on 22 April 2002.