

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries and associates are set out in notes 38 and 39, respectively, to the financial statements.

### 2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currencies translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has no effect on the results for the current or prior accounting periods. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective date of acquisition or disposal, respectively.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)**Goodwill**

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

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

**Negative goodwill**

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

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

Negative goodwill arising on the acquisition of an associate after 1 January 2001 is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries after 1 January 2001 is presented separately in the balance sheet as a deduction from assets.

Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

**Investments in subsidiaries**

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

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Interests in associates

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

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

#### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sales of properties are recognised on the execution of legally binding, unconditional and irrevocable contracts.

Service income is recognised when services are rendered.

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

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Properties in the course of development for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of assets, other than properties under development, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired lease term
Buildings	4% or over the term of lease, whichever is shorter
Plant and equipment	5% – 15%
Others	6% – 25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited in the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

#### **Leases**

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

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)**Technology licence rights**

Technology licence rights are stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is provided to write off the cost of right over the licence period on a straight line basis.

**Research and development expenses**

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

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

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are calculated using the weighted average cost method.

The cost of properties for sale includes the land cost, development expenditure, interests and other direct costs attributable to such properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

**Impairment**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Retirement benefits scheme**

According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, the Group is required to participate in MPF Scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees in Hong Kong.

Employees in the People's Republic of China, other than Hong Kong (the "PRC") are members of the state-managed pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The above contributions are charged to the income statement as an expense.

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

**4. TURNOVER**

Turnover represents the gross invoiced sales of goods less discounts and returns, proceeds on sales of properties, rental income, interest income and investment income as follows:

	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	<b>1,086,410</b>	904,673
Proceeds on sales of properties	<b>163,387</b>	40,751
Rental income	<b>43,194</b>	40,874
Interest income	<b>3,745</b>	12,657
Investment income	<b>3,089</b>	9,338
	<b>1,299,825</b>	1,008,293



## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to trading results, analysed by principal activity, were as follows:

(a) **Business segments:**

Segment information in respect of revenue for the year ended 31 December 2002 is presented below:

#### INCOME STATEMENT

	External sales <i>HK\$'000</i>	Inter-segment sales <i>HK\$'000</i>	Total revenue <i>HK\$'000</i>
<b>REVENUE</b>			
Manufacturing			
Plastic products	261,373	17,136	278,509
Liquid crystal display	50,873	–	50,873
Audio-video products	247,279	–	247,279
Printed circuit boards	89,405	–	89,405
Telecommunication products	117,126	49	117,175
Intelligent chargers and security system	230,579	689	231,268
Other products	17,362	–	17,362
Property	194,343	6,965	201,308
Trading	84,651	–	84,651
Finance	3,745	6,672	10,417
Others	3,089	–	3,089
	1,299,825	31,511	1,331,336
Eliminations	–	(31,511)	(31,511)
Consolidated total	1,299,825	–	1,299,825

Inter-segment sales are charged at prevailing market prices.

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## (a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2002 is presented below:

**RESULTS**

	<b>Amount</b> <i>HK\$'000</i>
Manufacturing	
Plastic products	37,797
Liquid crystal display	1,457
Audio-video products	(19,401)
Printed circuit boards	19,299
Telecommunication products	5,733
Intelligent chargers and security system	25,225
Other products	(21,797)
Property	(86,315)
Trading	(19,226)
Finance	(14,755)
Others	(62,596)
	(134,579)
Eliminations	(16,737)
Total segment results	(151,316)
Unallocated corporate expenses	(47,102)
Loss from operations	(198,418)
Finance costs	(79,578)
Share of results of associates (note)	(6,236)
Gain on disposal of subsidiaries	7,840
Loss on disposal of an associate	(14,880)
Loss before taxation	(291,272)
Taxation	(11,836)
Loss before minority interests	(303,108)
	<b>Amount</b> <i>HK\$'000</i>
Note:	
Share of results of associates:	
Manufacturing	
Telecommunication products	(3,401)
Other products	(1,699)
Others	(1,136)
	(6,236)

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

#### (a) Business segments: *(continued)*

Segment information in respect of balance sheet at 31 December 2002 is presented below:

#### BALANCE SHEET

	Segment assets <i>HK\$'000</i>	Interests in associates <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>			
Manufacturing			
Plastic products	193,884	–	193,884
Liquid crystal display	62,048	–	62,048
Audio-video products	157,309	–	157,309
Printed circuit boards	112,094	–	112,094
Telecommunication products	239,677	40,146	279,823
Intelligent chargers and security system	99,483	–	99,483
Other products	25,268	9,855	35,123
Property	602,646	–	602,646
Trading	102,511	–	102,511
Finance	927,197	–	927,197
Others	7,260	41,518	48,778
	<b>2,529,377</b>	<b>91,519</b>	<b>2,620,896</b>
Unallocated corporate assets			259,854
Consolidated total			<b>2,880,750</b>

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## (a) Business segments: (continued)

## BALANCE SHEET (continued)

	Segment liabilities HK\$'000
<b>LIABILITIES</b>	
Manufacturing	
Plastic products	51,558
Liquid crystal display	7,325
Audio-video products	92,381
Printed circuit boards	19,880
Telecommunication products	155,953
Intelligent chargers and security system	42,826
Other products	9,077
Property	60,379
Trading	28,894
Finance	447,290
Others	14,928
	930,491
Unallocated corporate liabilities	1,039,419
Consolidated total	1,969,910

	Capital additions HK\$'000	Depreciation and amortisation HK\$'000	Impairment losses HK\$'000	Deficit on revaluation of investment properties HK\$'000	Allowance for obsolete inventories HK\$'000	Allowance for doubtful debts HK\$'000
<b>OTHER INFORMATION</b>						
Manufacturing	58,939	53,969	6,254	-	3,642	8,900
Property	5,057	8,268	20,904	68,431	2,603	138
Trading	45	634	-	-	-	17,649
Finance	-	2	-	-	-	-
Others	107	6,070	34,915	-	-	912
Consolidated total	64,148	68,943	62,073	68,431	6,245	27,599

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### (a) Business segments: (continued)

Segment information in respect of revenue for the year ended 31 December 2001 is presented below:

#### INCOME STATEMENT

	External sales <i>HK\$'000</i>	Inter-segment sales <i>HK\$'000</i>	Total revenue <i>HK\$'000</i>
<b>REVENUE</b>			
Manufacturing			
Plastic products	212,838	17,170	230,008
Liquid crystal display	53,793	–	53,793
Audio-video products	188,638	–	188,638
Printed circuit boards	107,799	–	107,799
Telecommunication products	92,999	601	93,600
Intelligent chargers and security system	143,754	1,010	144,764
Other products	20,095	18	20,113
Property	81,625	10,809	92,434
Trading	84,757	518	85,275
Finance	12,657	12,355	25,012
Others	9,338	–	9,338
	1,008,293	42,481	1,050,774
Eliminations	–	(42,481)	(42,481)
Consolidated total	1,008,293	–	1,008,293

Inter-segment sales are charged at prevailing market prices.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2001 is presented below:

RESULTS

	Amount HK\$'000
Manufacturing	
Plastic products	29,757
Liquid crystal display	(8,947)
Audio-video products	(22,824)
Printed circuit boards	25,777
Telecommunication products	(49,735)
Intelligent chargers and security system	14,000
Other products	(26,993)
Property	34,322
Trading	(3,440)
Finance	8,964
Others	(168,348)
	(167,467)
Eliminations	(26,403)
Total segment results	(193,870)
Unallocated corporate expenses	(87,644)
Loss from operations	(281,514)
Finance costs	(113,133)
Share of results of associates (note 1)	(717)
Impairment loss recognised in respect of interests in associates (note 2)	(470,116)
Loss before taxation	(865,480)
Taxation	(666)
Loss before minority interests	(866,146)

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### (a) Business segments: (continued)

	<b>Amount</b>
	<i>HK\$'000</i>
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Notes:	
(1) Share of results of associates:	
Manufacturing	
Telecommunication products	(1,559)
Other products	40
Others	802
	<hr/>
	(717)
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(2) Impairment loss recognised in respect of interests in associates:	
Manufacturing	
Telecommunication products	(198,000)
Other products	(272,116)
	<hr/>
	(470,116)
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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of balance sheet at 31 December 2001 is presented below:

BALANCE SHEET

	Segment assets <i>HK\$'000</i>	Interests in associates <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>			
Manufacturing			
Plastic products	186,509	–	186,509
Liquid crystal display	65,019	–	65,019
Audio-video products	202,883	–	202,883
Printed circuit boards	113,048	–	113,048
Telecommunication products	223,211	44,180	267,391
Intelligent chargers and security system	58,866	–	58,866
Other products	45,803	2,287	48,090
Property	878,020	44,879	922,899
Trading	88,548	–	88,548
Finance	1,177,559	–	1,177,559
Others	75,393	41,856	117,249
	<b>3,114,859</b>	<b>133,202</b>	<b>3,248,061</b>
Unallocated corporate assets			274,543
Consolidated total			<b>3,522,604</b>



## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### (a) Business segments: (continued)

##### BALANCE SHEET (continued)

	Segment liabilities HK\$'000
<b>LIABILITIES</b>	
Manufacturing	
Plastic products	44,609
Liquid crystal display	7,270
Audio-video products	113,799
Printed circuit boards	18,561
Telecommunication products	128,335
Intelligent chargers and security system	18,366
Other products	9,993
Property	166,249
Trading	86,032
Finance	423,028
Others	20,662
	1,036,904
Unallocated corporate liabilities	1,256,300
Consolidated total	2,293,204

	Capital additions HK\$'000	Depreciation and amortisation HK\$'000	Impairment losses HK\$'000	Allowance for obsolete inventories HK\$'000	Allowance for doubtful debts HK\$'000
<b>OTHER INFORMATION</b>					
Manufacturing	75,657	54,236	511,884	21,194	(4,634)
Property	39,695	10,037	6,479	1,005	-
Trading	59	849	-	-	5,322
Finance	-	4	-	-	19,112
Others	3,207	14,296	199,399	-	-
Consolidated total	118,618	79,422	717,762	22,199	19,800

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## (b) Geographical segments:

(i) The following table provides an analysis of the Group's sales by geographical market:

	Sales revenue by geographical market		Loss from operations	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,014,590	664,737	(116,677)	(167,503)
The PRC	285,235	343,556	(34,639)	(26,367)
	<b>1,299,825</b>	1,008,293	<b>(151,316)</b>	(193,870)
Unallocated corporate expenses			<b>(47,102)</b>	(87,644)
Loss from operations			<b>(198,418)</b>	(281,514)

(ii) The following table provides an analysis of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,967,054	2,403,192	22,527	51,317
The PRC	913,696	1,119,412	41,621	67,301
	<b>2,880,750</b>	3,522,604	<b>64,148</b>	118,618

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 6. LOSS FROM OPERATIONS

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Allowance for obsolete inventories	6,245	22,199
Amortisation of development costs ( <i>note</i> )	4,935	7,094
Auditors' remuneration	4,818	3,641
Cost of inventories consumed	878,878	768,931
Depreciation on		
– owned assets	63,010	70,517
– assets held under finance leases	998	1,811
Loss on disposal of property, plant and equipment	11,294	–
Minimum lease payments paid under operating leases		
on land and buildings	7,321	4,868
Research expenses	8,652	2,145
Total staff costs, including directors' remuneration	160,161	141,212
and after crediting:		
Gross rental income from		
– land and buildings	6,219	2,626
– investment properties	35,277	41,904
– properties for sale	1,698	–
	43,194	44,530
Less: Outgoings	(6,001)	(4,728)
	37,193	39,802
Dividend income from listed investment securities	3,089	9,339
Gain on disposal of property, plant and equipment	–	195
Interest income	3,745	12,659

*Note:* The amounts are included in cost of sales and services.

7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees		
Executives	306	170
Non-executives (excluding independent non-executives)	276	200
Independent non-executives	390	250
	<b>972</b>	620
Other emoluments		
Salaries and other benefits	3,860	3,099
Bonuses	1,497	416
Contributions to retirement benefits scheme	49	36
	<b>5,406</b>	3,551
Total emoluments	<b>6,378</b>	4,171

The emoluments of the directors were within the following bands:

Emoluments band	Number of directors	
	2002	2001
Nil – HK\$1,000,000	9	11
HK\$1,000,001 – HK\$1,500,000	3	1
HK\$1,500,001 – HK\$2,000,000	1	–
	<b>13</b>	12

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

#### (b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included three directors (2001: two directors), details of whose emoluments are set out above. The emoluments of the remaining two (2001: three) highest paid individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	2,517	4,081
Contributions to retirement benefits scheme	24	36
	<b>2,541</b>	<b>4,117</b>

The emoluments of these individuals were within the following bands:

Emoluments band	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$2,000,001 – HK\$2,500,000	–	1
	<b>2</b>	<b>3</b>

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

### 8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest expenses on:		
– bank loans and overdrafts wholly repayable within five years	58,692	75,107
– bank loans not wholly repayable within five years	10,623	17,005
– finance lease charges	283	530
– other loans wholly repayable within five years	9,980	20,491
	<b>79,578</b>	<b>113,133</b>

**9. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTERESTS IN ASSOCIATES**

The Group reviewed the carrying amounts of interests in associates and identified that in 2001 the estimated discounted net future cash flows from certain associates (the "recoverable amounts") were less than the carrying amounts. Accordingly, the carrying amounts of those associates were reduced to their respective recoverable amounts which were estimated using market borrowing rates.

**10. TAXATION**

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
– current year	<b>14,203</b>	5,657
– overprovision in previous years	<b>(3,932)</b>	(7,101)
Overseas income tax		
– current year	<b>1,565</b>	1,961
Taxation attributable to the Company and its subsidiaries	<b>11,836</b>	517
Share of overseas income tax attributable to associates	–	149
	<b>11,836</b>	666

Hong Kong Profits Tax is calculated at 16% (2001: 16%) on the estimated assessable profits for the year.

Overseas income tax represents the income tax of the PRC. Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries and the Group's associates are entitled to exemption from income tax under certain tax holidays and concessions. Income tax is calculated at rates given under the concessions.

**11. LOSS PER SHARE**

The calculation of basic loss per share for the year is based on the net loss for the year of HK\$301,273,000 (2001: HK\$736,311,000) and on 2,142,420,000 shares (2001: 2,142,420,000 shares) outstanding during the year.

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 12. PROPERTY, PLANT AND EQUIPMENT

	Long term leasehold land and buildings in Hong Kong HK\$'000	Medium term leasehold land and buildings in Hong Kong HK\$'000	Long term leasehold land and buildings in the PRC HK\$'000	Medium term leasehold land and buildings in the PRC HK\$'000	Properties under development HK\$'000	Plant and equipment HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
<b>COST</b>								
At 1 January 2002	28,649	346,607	38,511	379,044	150,365	422,414	226,612	1,592,202
Additions	-	-	271	5,421	1,024	36,690	15,742	59,148
Reclassifications	-	-	(26,590)	32,777	(6,187)	-	-	-
Disposal of subsidiaries	-	-	-	-	(9,826)	(38,576)	(1,191)	(49,593)
Disposals	-	-	(954)	(533)	-	(26,222)	(32,734)	(60,443)
<b>At 31 December 2002</b>	<b>28,649</b>	<b>346,607</b>	<b>11,238</b>	<b>416,709</b>	<b>135,376</b>	<b>394,306</b>	<b>208,429</b>	<b>1,541,314</b>
<b>DEPRECIATION AND IMPAIRMENT</b>								
At 1 January 2002	5,709	218,854	8,113	64,612	4,000	251,757	160,045	713,090
Charged for the year	572	4,139	1,070	8,037	-	34,407	15,783	64,008
Reclassifications	-	-	(4,357)	4,357	-	-	-	-
Impairment loss recognised	-	8,873	-	15,681	-	9,266	1,545	35,365
Eliminated on disposal of subsidiaries	-	-	-	-	(4,000)	(35,768)	(833)	(40,601)
Eliminated on disposals	-	-	(356)	(328)	-	(21,376)	(19,729)	(41,789)
<b>At 31 December 2002</b>	<b>6,281</b>	<b>231,866</b>	<b>4,470</b>	<b>92,359</b>	<b>-</b>	<b>238,286</b>	<b>156,811</b>	<b>730,073</b>
<b>NET BOOK VALUES</b>								
<b>At 31 December 2002</b>	<b>22,368</b>	<b>114,741</b>	<b>6,768</b>	<b>324,350</b>	<b>135,376</b>	<b>156,020</b>	<b>51,618</b>	<b>811,241</b>
At 31 December 2001	22,940	127,753	30,398	314,432	146,365	170,657	66,567	879,112

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Medium term leasehold land and buildings in Hong Kong HK\$'000	Medium term leasehold land and buildings in the PRC HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
<b>COST</b>				
At 1 January 2002	303,254	42,647	48,264	394,165
Additions	–	–	107	107
Disposals	–	–	(10,748)	(10,748)
<b>At 31 December 2002</b>	<b>303,254</b>	<b>42,647</b>	<b>37,623</b>	<b>383,524</b>
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 January 2002	204,165	30,000	34,032	268,197
Charged for the year	2,970	–	3,100	6,070
Impairment loss recognised	8,873	–	–	8,873
Eliminated on disposals	–	–	(10,311)	(10,311)
<b>At 31 December 2002</b>	<b>216,008</b>	<b>30,000</b>	<b>26,821</b>	<b>272,829</b>
<b>NET BOOK VALUES</b>				
<b>At 31 December 2002</b>	<b>87,246</b>	<b>12,647</b>	<b>10,802</b>	<b>110,695</b>
At 31 December 2001	99,089	12,647	14,232	125,968

## Notes:

- (a) The aggregate net book values of the Group's assets held under finance leases at 31 December 2002 amounted to HK\$9,420,000 (2001: HK\$27,109,000).
- (b) The properties under development are held under a medium term lease in the PRC.
- (c) During the year, the Group reviewed the carrying amounts of property, plant and equipment and identified that certain of the assets are either subsequently disposed of at a loss or have no economic value to the Group. Accordingly, the carrying amounts of those assets are reduced to their respective recoverable amounts, which represent their net selling prices. The net selling prices were determined by reference to the market prices.



## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 13. INVESTMENT PROPERTIES

	Long term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Medium term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>			
<b>VALUATION</b>			
At 1 January 2002	29,732	292,512	322,244
Eliminated on disposals	(6,800)	(38,608)	(45,408)
Deficit on revaluation	(2,702)	(65,729)	(68,431)
<b>At 31 December 2002</b>	<b>20,230</b>	<b>188,175</b>	<b>208,405</b>

The Group's investment properties have been revalued at 31 December 2002 by Dudley Surveyors Limited, a firm of independent professional valuers, on an open market basis. The above-mentioned revaluation has been adopted by the directors in these financial statements and the deficit on revaluation is charged to the income statement.

### 14. DEVELOPMENT COSTS

	<i>HK\$'000</i>
<b>THE GROUP</b>	
<b>COST</b>	
At 1 January 2002	22,945
Additions	5,000
Disposal of subsidiaries	(3)
Write off	(2,007)
<b>At 31 December 2002</b>	<b>25,935</b>
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1 January 2002	12,456
Amortised for the year	4,935
Impairment loss recognised ( <i>note</i> )	3,000
Eliminated on written off	(2,007)
<b>At 31 December 2002</b>	<b>18,384</b>
<b>NET BOOK VALUES</b>	
<b>At 31 December 2002</b>	<b>7,551</b>
At 31 December 2001	10,489

*Note:* During the year, the Group has undertaken a review of its development projects to assess the marketability of the respective products. The carrying value of the development costs amounting to HK\$3,000,000 was fully written off.

15. TECHNOLOGY LICENCE RIGHT

	<i>HK\$'000</i>
<hr/>	
<b>THE GROUP</b>	
<b>COST</b>	
At 1 January and 31 December 2002	35,100
<b>AMORTISATION</b>	
At 1 January and 31 December 2002	1,170
<hr/>	
<b>NET BOOK VALUE</b>	
At 31 December 2002 and 2001	33,930
<hr/>	

The production in relation to the technology licence right granted to the Group has not yet been commenced.

16. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Unlisted shares, at cost	<b>529,026</b>	572,327
Amounts due from subsidiaries	<b>1,296,047</b>	1,296,631
<hr/>		
	<b>1,825,073</b>	1,868,958
Impairment loss recognised	<b>(1,288,502)</b>	(1,326,659)
<hr/>		
	<b>536,571</b>	542,299
<hr/>		

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment of the amounts within twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets in the balance sheet.

During the year, the Company reviewed the carrying amounts of interests in subsidiaries and identified that the estimated discounted net future cash flows from certain subsidiaries (the "recoverable amounts") are less than the carrying amounts. Accordingly, the carrying amounts of these subsidiaries are reduced to their respective recoverable amounts which are estimated using market borrowing rates.

Particulars of the principal subsidiaries of the Company at 31 December 2002 are set out in note 38.

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

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 17. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	<b>29,550</b>	108,866
Share of net assets	<b>8,682</b>	59,239	–	–
Amounts due from associates	<b>82,837</b>	73,963	–	–
	<b>91,519</b>	133,202	<b>29,550</b>	108,866
Impairment loss recognised	–	–	<b>(6,548)</b>	(64,213)
	<b>91,519</b>	133,202	<b>23,002</b>	44,653

The amounts due from associates are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the Group will not demand for repayment of the amounts within twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets in the balance sheet.

Particulars of the principal associates of the Group at 31 December 2002 are set out in note 39.

During the year, the Group reviewed the carrying amounts of interests in associates and identified that the estimated discounted net future cash flows from certain associates (the "recoverable amounts") are less than the carrying amounts. Accordingly, the carrying amounts of these associates are reduced to their respective recoverable amounts which are estimated using market borrowing rates.

## 18. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Investment securities:				
– listed	241,300	241,300	–	–
– unlisted	568,944	568,944	–	–
	810,244	810,244	–	–
Impairment loss recognised	(583,215)	(583,215)	–	–
	227,029	227,029	–	–
Other investments:				
– unlisted	23,708	23,708	23,708	23,704
Impairment loss recognised	(23,708)	–	(23,708)	–
	–	23,708	–	23,704
	227,029	250,737	–	23,704
Market value of listed investments	44,928	99,060	–	–

## 19. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	48,155	77,226
Work-in-progress	31,018	23,993
Finished goods	79,365	117,126
Properties for sale (note)	52,946	239,743
	211,484	458,088

Included above are raw materials of HK\$16,908,000 (2001: HK\$41,695,000), work-in-progress of HK\$18,551,000 (2001: HK\$3,753,000), finished goods of HK\$4,386,000 (2001: HK\$60,095,000) and properties for sale of HK\$6,486,000 (2001: HK\$9,808,000) carried at net realisable values.

Note: The Group is in the process of applying for the title of the properties in the PRC with carrying value of HK\$46,460,000 (2001: HK\$155,958,000).

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 20. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<b>163,147</b>	129,961	–	–
Other receivables, deposits and prepayments	<b>78,311</b>	81,320	<b>11,582</b>	16,742
	<b>241,458</b>	211,281	<b>11,582</b>	16,742

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at 31 December:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<b>143,243</b>	92,394
Between 91 - 180 days	<b>10,614</b>	17,175
Between 181 - 365 days	<b>6,025</b>	8,428
Between 1 to 2 years	<b>3,265</b>	11,964
	<b>163,147</b>	129,961

### 21. LOANS RECEIVABLE

The major shareholder, China Aerospace Science & Technology Corporation, has undertaken to recover all loans receivable of the Group.

### 22. PLEDGED BANK DEPOSITS

The amount of the Group represents bank deposits pledged for the Group's bank loans.

23. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	<b>328,799</b>	324,449	–	–
Other payables and accruals	<b>421,408</b>	391,288	<b>157,165</b>	145,315
	<b>750,207</b>	715,737	<b>157,165</b>	145,315

The following is an aged analysis of trade payables at 31 December:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<b>129,711</b>	135,238
Between 91 - 180 days	<b>6,200</b>	12,129
Between 181 - 365 days	<b>3,413</b>	3,034
Between 1 to 2 years	<b>36,045</b>	19,949
Over 2 years	<b>153,430</b>	154,099
	<b>328,799</b>	324,449

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum		Present value	
	lease payments		of minimum	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Amounts payable under finance leases:				
Within one year	3,354	3,926	3,137	3,505
In the second to the fifth year inclusive	1,735	3,196	1,684	3,013
	5,089	7,122	4,821	6,518
Less: Future finance charges	(268)	(604)	–	–
Present value of lease obligations	4,821	6,518	4,821	6,518
Less: Amount due within one year			(3,137)	(3,505)
Amount due after one year			1,684	3,013

### 25. BANK LOANS AND OVERDRAFTS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts and short term				
bank loans				
– secured	100,602	160,928	49,830	134,756
– unsecured	142,916	137,157	659	843
	243,518	298,085	50,489	135,599
Current portion of long term bank loans (note 27)	303,327	336,527	289,806	296,769
	546,845	634,612	340,295	432,368

## 26. OTHER LOANS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other loans are repayable in the second to the fifth year inclusive	<b>202,435</b>	327,299	<b>39,746</b>	164,610
Other loans comprise:				
Loans from third parties (note a)	<b>93,307</b>	218,171	<b>39,746</b>	164,610
Guaranteed exchangeable fixed/floating rate notes (note b)	<b>62,400</b>	62,400	–	–
Guaranteed floating rate notes (note c)	<b>46,728</b>	46,728	–	–
	<b>202,435</b>	327,299	<b>39,746</b>	164,610

## Notes:

- (a) Loans from third parties represent advances from independent third parties. The amounts are unsecured, bear interest at 4.25% or prime rate (2001: 4.25% or prime rate) per annum and are repayable from 2004 to 2005.
- (b) In 2001, a subsidiary of the Company issued US\$8,000,000 guaranteed exchangeable fixed/floating rate notes due 2004 which were in bearer form in the denomination of US\$1,000,000 each and will mature in March 2004. The notes are interest bearing at 6.5% per annum for the period up to September 2002 and at 1.5% above London interbank offered rate (for six-month US dollar deposits) thereafter. Unlisted investment securities with carrying value of HK\$76,662,000 are pledged for the notes.
- (c) In 2001, a subsidiary of the Company issued US\$6,000,000 guaranteed secured floating rate notes due 2004 which were in bearer form in the denomination of US\$250,000 each and will mature in September 2004. The notes are interest bearing at 1.5% above London interbank offered rate. Listed investment securities with carrying value of HK\$50,742,000 are pledged for the notes.



## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 27. BANK LOANS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans are repayable:				
– within one year	<b>303,327</b>	336,527	<b>289,806</b>	296,769
– in the second year	<b>35,066</b>	107,797	<b>21,738</b>	95,950
– in the third to fifth year inclusive	<b>162,050</b>	71,950	<b>143,498</b>	33,926
– after five years	<b>54,948</b>	88,868	<b>48,915</b>	61,631
	<b>555,391</b>	605,142	<b>503,957</b>	488,276
Less: Amount due within one year shown under current liabilities (note 25)	<b>(303,327)</b>	(336,527)	<b>(289,806)</b>	(296,769)
Amount due after one year	<b>252,064</b>	268,615	<b>214,151</b>	191,507
Secured	<b>555,391</b>	501,342	<b>503,957</b>	384,476
Unsecured	–	103,800	–	103,800
	<b>555,391</b>	605,142	<b>503,957</b>	488,276

The Group's investment properties, property, plant and equipment, bank deposits and listed investment securities with aggregate net book value of HK\$182,006,000 (2001: HK\$70,322,000), HK\$115,774,000 (2001: HK\$151,702,000), HK\$78,573,000 (2001: HK\$95,860,000) and HK\$28,589,000 (2001: nil), respectively, were pledged to banks. In addition, the Company's interest in a listed subsidiary with a market value of HK\$95,689,000 (2001: HK\$222,366,000) and equity interest in a non-wholly owned subsidiary, China Aerospace (Huizhou) Industrial Garden Limited, were also pledged to banks.

**28. SHARE CAPITAL**

**(a) Share capital**

	2002 & 2001	
	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$1 each:		
Authorised:		
At 1 January and 31 December	10,000,000	10,000,000
Issued and fully paid:		
At 1 January and 31 December	2,142,420	2,142,420

**(b) Share option scheme**

Under the terms of the share option scheme which became effective on 8 July 1997, the board of directors of the Company may offer to any full time employee of the Company, or any of its subsidiaries, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company. The purpose of the scheme is to recognise the contribution of employees of the Group. Consideration of HK\$1 is payable on each grant. The exercise price of the option will not be less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediate preceding the date of the grant of the options. The total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time.

No option under the scheme was granted or exercised during the year and no options were outstanding at 31 December 2002 and 31 December 2001.

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 29. RESERVES

	Share premium <i>HK\$'000</i>	Special capital reserve <i>(note a)</i> <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>					
At 1 January 2001	939,048	84,656	1,080	(1,216,838)	(192,054)
Net loss for the year	–	–	–	(783,641)	(783,641)
At 31 December 2001	939,048	84,656	1,080	(2,000,479)	(975,695)
Net loss for the year	–	–	–	(337,245)	(337,245)
<b>At 31 December 2002</b>	<b>939,048</b>	<b>84,656</b>	<b>1,080</b>	<b>(2,337,724)</b>	<b>(1,312,940)</b>

*Notes:*

- (a) Under the terms of the court order in the reduction of the share premium on 11 July 1994 (the "effective date"), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and any write back of the total provisions which have been made against at the effective date on the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.
- (b) General reserve of the Group is part of the shareholders' funds and comprises reserve fund and enterprise expansion fund of the subsidiaries and associates in the PRC.
- (c) The Company had no reserve available for distribution as at 31 December 2002 (2001: nil).
- (d) The general reserve, translation reserve and accumulated losses of the Group include the Group's share of the reserves of its associates amounting to HK\$8,775,000 (2001: HK\$8,775,000), HK\$2,940,000 (2001: HK\$240,000) and HK\$75,362,000 (2001: HK\$57,159,000), respectively.

**30. DISPOSAL OF SUBSIDIARIES**

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	8,992	–
Development costs	3	–
Inventories	75,561	–
Trade and other receivables	4,229	–
Bank balances and cash	30,581	–
Bank loans	(33,018)	–
Trade and other payables	(46,984)	–
Minority interests	(2,523)	–
	<b>36,841</b>	–
Realisation of translation reserve	(986)	–
Gain on disposal	7,840	–
	<b>43,695</b>	–
Satisfied by:		
Bank balances and cash	43,695	–

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash consideration	43,695	–
Bank balances and cash disposed of	(30,581)	–
	<b>13,114</b>	–

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 31. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the Group entered into finance lease arrangements in respect of assets with total value at the inception of the leases of HK\$2,179,000 (2001: HK\$6,943,000).
- (b) During the year, properties for sale of HK\$116,151,000 were disposed of at a consideration of HK\$118,030,000 to a lender of other loans. The consideration was applied to set off against other loan due to the lender.
- (c) During the year, the Company's major shareholder received settlement of loans receivable of HK\$134,000,000 on behalf of the Group and the amount was applied to set off against the amount due to the major shareholder.

### 32. DEFERRED TAXATION

At the balance sheet date, the major components of deferred tax (assets) liabilities which have not been recognised or provided are as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	22,004	20,559	23,342	24,998
Unrelieved tax losses	(187,395)	(192,487)	(16,594)	(19,424)
Other timing differences	(23,740)	(29,534)	(398)	(398)
	(189,131)	(201,462)	6,350	5,176

A net deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will be realised in the foreseeable future.

No provision for deferred taxation has been recognised in the Company's financial statements in respect of timing differences arising during the year as it is not expected that the potential deferred tax liability will reverse in the foreseeable future, after taking into account the Company's medium-term financial plans and projections.

**32. DEFERRED TAXATION** (continued)

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Difference of tax allowances and depreciation	1,445	1,195
Tax losses	5,092	(6,075)
Other timing differences	5,794	16,012
	<b>12,331</b>	11,132

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of the Group's investment properties as profits arising on the disposal of those assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

**33. CONTINGENT LIABILITIES**

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given for banking and finance facilities granted to:				
– subsidiaries	–	–	707,160	687,160
– third parties	4,450	4,450	4,450	4,450
Guarantees given for fixed floating rate notes issued by subsidiaries	–	–	109,032	109,032
	<b>4,450</b>	4,450	<b>820,642</b>	800,642

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 34. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– capital contribution to investee companies	<b>2,939</b>	7,751	<b>110</b>	7,751
– purchase of property, plant and equipment	<b>5,139</b>	11,606	–	–
– properties under development	<b>5,672</b>	9,097	<b>3,730</b>	3,730
	<b>13,750</b>	28,454	<b>3,840</b>	11,481

### 35. OPERATING LEASE COMMITMENTS

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

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>4,198</b>	4,915
In the second to fifth year inclusive	<b>1,647</b>	4,541
	<b>5,845</b>	9,456

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated and rentals are fixed for an average term of one to two years.

At 31 December 2002, the Company had no commitments under non-cancellable operating leases (2001: nil).

**35. OPERATING LEASE COMMITMENTS** (continued)

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>13,850</b>	14,988
In the second to fifth year inclusive	<b>8,810</b>	6,492
	<b>22,660</b>	21,480

The properties held have committed tenants for the next one to two years.

**36. RETIREMENT BENEFIT SCHEMES**

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

The employees in the Company's PRC subsidiaries are members of the state-managed pension scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the income statement of HK\$2,871,000 (2001: HK\$2,049,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.



## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 37. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	2002 HK\$'000	2001 HK\$'000
A substantial shareholder of a non wholly-owned subsidiary:		
– Sales thereto ( <i>note a</i> )	65	3,935
– Purchase therefrom ( <i>note a</i> )	49	343
– Subcontracting income received ( <i>note a</i> )	8,338	5,664
Associates of the Group:		
– Sales thereto ( <i>note a</i> )	2,463	3,267
– Purchase therefrom ( <i>note a</i> )	22,177	9,535
– Subcontracting charges paid ( <i>note a</i> )	–	3,198
– Product development fee received ( <i>note b</i> )	7,623	–
– Sales of property, plant and equipment ( <i>note b</i> )	8,271	–
A non-executive director of the Company:		
– Sale of a residential property to Mr. Shen Dabin and his associate ( <i>note c</i> )	–	1,040

- (a) The transaction amounts were determined on a cost plus basis.
- (b) The transactions were carried out in accordance with the relevant agreement.
- (c) The consideration was agreed after arm's length negotiation on terms with reference to comparable properties.
- (d) Amounts due from or to associates are unsecured, non-interest bearing and with no fixed repayment terms.
- (e) Amount due to a major shareholder is unsecured and non-interest bearing. The amount is repayable in December 2004 (2001: the amount had no fixed repayment terms).

In addition, at 31 December 2002, the Group had an outstanding loan amounting to US\$5,500,000 (approximately HK\$42,900,000) (2001: US\$8,000,000 (approximately HK\$62,400,000)) from a financial institution. The loan agreement contains a covenant that the controlling shareholder of the Company, China Aerospace Science & Technology Corporation, will maintain a minimum percentage of shareholding of 40% of the Company, the breach of which would constitute an event of default on the related loan facilities.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital *	Percentage of equity			Principal activities
		held by the Company	held by subsidiaries	attributable to the Group	
		%	%	%	
<i>Incorporated and operating in Hong Kong:</i>					
CASIL Clearing Limited	HK\$10,000,000	100	–	100	Provision of treasury services
CASIL Development Limited	HK\$1,000,000	–	100	100	Property development and investment
CASIL Electronic Products Limited	HK\$15,000,000	100	–	100	Distribution of electronic products
CASIL Global Development Limited	HK\$100	100	–	100	General trading
CASTEL Broadband Limited	HK\$10,000	–	100	51	Broadband business
CASIL Broadband (Hong Kong) Limited	HK\$10,000	–	100	100	Broadband business
CASTEL Qihua Hi-Tech Investments Limited	HK\$8,000,000	–	88	45	Investment holding
CASTEL Intelligent Transportation System Limited	HK\$11,600,000	–	88	45	Intelligent transportation system business
CASIL Lands Limited	HK\$10,000	–	100	100	Property investment
CASIL Network System Engineering Limited	HK\$2	100	–	100	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital *	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries to the Group %	attributable to the Group %	
<i>Incorporated and operating in Hong Kong (continued):</i>					
CASIL (Nominees) Limited	HK\$2	100	–	100	Provision of secretarial services
CASIL Optoelectronic Product Development Limited	HK\$3,000,000	–	100	100	Distribution of optoelectronic products
CASIL Properties Limited	HK\$10,000	100	–	100	Property investment
CASIL Realty Limited	HK\$200	100	–	100	Property investment and management
CASIL Research and Development Company Limited	HK\$8,000,000	100	–	100	Research, development and trading of electronic products
CASIL Satellite Holdings Limited	HK\$88,106,563 (2 ordinary shares of HK\$1 each and 11,295,713 ordinary shares of US\$1 each)	–	100	100	Investment holding
CASIL Semiconductor Limited	HK\$15,000,000	100	–	100	Distribution of liquid crystal displays
Chee Yuen Industrial Company Limited	HK\$20,000,000	100	–	100	Distribution of plastic products and moulds
Fakin Trading Company Limited	HK\$500,000	100	–	100	General trading

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital *	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries to the Group %	attributable to the Group %	
<i>Incorporated and operating in Hong Kong (continued):</i>					
Hong Yuen Electronics Limited	HK\$5,000,000	100	–	100	Manufacturing and selling of printed circuit boards
Hung Nien Electronics Limited	HK\$30,001,000 (300,000 deferred shares of HK\$100 each and 10 ordinary shares of HK\$100 each)	–	100	51	Manufacturing and distribution of telecommunication products
Jackson Electric Company Limited	HK\$5,000,000	100	–	100	Manufacturing and distribution of electronic components
Jeckwell International Trading Company Limited	HK\$800,000	100	–	100	General trading
Magicsound Company Limited	HK\$10,000	–	100	51	Property investment
Merrycity Company Limited	HK\$380,000	–	100	100	Property investment
Sure Full Investments Limited	HK\$2	100	–	100	Property investment

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital *	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries to the Group %	attributable to the Group %	
<i>Incorporated and operating in Hong Kong (continued):</i>					
Well Horn Company Limited	HK\$2	–	100	100	Property investment
Worldwide Polyfoam & Engineering Limited	HK\$3,000,000	100	–	100	General trading
<i>Incorporated in the British Virgin Islands and operating in Hong Kong:</i>					
Astrotech Group Limited	US\$1	100	–	100	Investment holding
Sinolike Investments Limited	US\$1	100	–	100	Investment holding
<i>Incorporated in the Cayman Islands and operating in Hong Kong:</i>					
CASIL Telecommunications Holdings Limited <i>(note)</i>	HK\$87,713,976	–	51	51	Investment holding
<i>Incorporated and operating in France:</i>					
CXSAT	FRF250,000	–	51	51	Manufacturing and sale of digital TV equipment
<i>Registered and operating in the PRC:</i>					
Aerospace Technology (China) Company Limited	US\$5,000,000 *	100	–	100	Manufacturing of telecommunication products

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital *	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries to the Group %	attributable to the Group %	
<i>Registered and operating in the PRC (continued):</i>					
CASIL Science and Technology Development (Shenzhen) Company Limited	US\$1,500,000 *	100	–	100	Design and distribution of integrated circuits and intelligent automation systems
CASIL Telecommunication (Shenzhen) Company Limited	HK\$5,000,000 *	–	88	45	Manufacturing and selling of telecommunications products
Chee Yuen Plastic Products (Huizhou) Company Limited	RMB26,761,000 *	–	100	100	Manufacturing of plastic products and moulds
China Aerospace (Huizhou) Industrial Garden Limited	US\$12,000,000 *	90	–	90	Property development
Conhui (Huizhou) Electronics Company Limited	RMB131,831,747 *	–	100	100	Manufacturing and distribution of electronic products
Conhui (Huizhou) Semiconductor Company Limited	RMB31,229,651 *	–	100	100	Manufacturing of liquid crystal displays
Conhui (Huizhou) Worldwide Polyfoam Limited	RMB3,728,813 *	–	100	100	Manufacturing of polyfoam products

## NOTES TO THE FINANCIAL STATEMENTS (For the year ended 31 December 2002)

### 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital *	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries to the Group %	attributable to the Group %	
<i>Registered and operating in the PRC (continued):</i>					
Huizhou Jackson Electric Company Limited	US\$1,000,000 *	–	90	90	Subcontractor for the manufacture of electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited	US\$400,000 *	–	90	90	Manufacturing of electronics and plastic products
Junhan Electronics (Shenzhen) Company Limited	HK\$3,000,000 *	–	100	100	Property investment and management
Qinhuangdao Hungnic Electronics Company Limited	US\$3,538,000 *	–	51	26	Manufacturing of telecommunication products
Shenzhen Chee Yuen Plastics Company Limited	RMB22,000,000 *	–	80	80	Manufacturing of plastic products
惠州市海燕賓館有限公司	RMB7,700,000 *	–	51	46	Hotel operation
唐山奇華衛星定位有限公司	RMB1,280,000 *	–	51	23	Intelligent transportation system business
北京奇華通訊有限公司	RMB1,239,000 *	–	78	35	Intelligent transportation system business

*Note:* The subsidiary's shares are listed on The Stock Exchange of Hong Kong Limited.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

39. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Nominal value of issued ordinary share capital/ registered capital *	Percentage of equity			Principal activities
		held by the Company	held by subsidiaries	attributable to the Group	
		%	%	%	
<i>Incorporated in the British Virgin Islands and operating in Hong Kong:</i>					
Aircar Assets Limited	US\$10,000	–	47	47	Investment holding
<i>Registered and operating in the PRC:</i>					
Beijing Aerospace Sat-Way Information System Company Limited	US\$6,000,000 *	30	–	30	Manufacturing of telecommunication products
Jiangsu CASIL Broadcasting & Cable TV Network Company Limited	RMB64,000,000 *	–	49	49	Broadcasting business
Shandong Kongwei Electronics Limited	US\$2,741,800 *	–	46	23	Manufacturing of telecommunication products
Southern Telecommunication Development Company Limited	US\$8,400,000 *	–	41	21	Manufacturing and selling of telecommunication products
China Cable and CASIL Information Technology Company Limited	RMB17,000,000 *	40	–	40	Research and development on digital audio systems and related research and development activities

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.