

## 34 NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

### 1. GENERAL

The Company was incorporated in the Cayman Islands on 26 June 2001 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its ultimate holding company is Twinning Wealth Limited, incorporated in the British Virgin Islands.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 33.

Pursuant to a corporate reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (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"), the Company became the holding company of the Group on 11 April 2002. Details of the Group Reorganisation are set out in the prospectus of the Company dated 16 April 2002.

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

- (a) the shares of United Win International Corporation ("United Win") were issued and allotted to the then shareholders of Wang Sing Products Limited ("WSP"), Chief Wealth International Corp. ("Chief Wealth") and Gerrards Agents Limited ("GAL"), in exchange for the shares in WSP, Chief Wealth and GAL; and
- (b) the shares of the Company were issued and allotted to the then existing shareholders of United Win in exchange for the shares in United Win.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice No.27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

The financial statements of the Group for the year ended 31 December 2001 have been prepared as if the current group structure had been in existence since 1 January 2001.

The shares of the Company have been listed on the Main Board of the Stock Exchange with effect from 26 April 2002.

For the year ended 31 December 2002

## 2. BASIS OF PREPARATION

In September 2001, Jiangsu Golden Harbour Enterprises Ltd. ("Golden Harbour"), an indirectly wholly owned subsidiary of the Company, entered into two subcontracting agreements ("Subcontracting Agreements") with each of Hai An Xian Electronic Meter Factory ("Hai An") and Hai An Xian Tian Yuan Power Tools Manufacture Company Limited ("Tian Yuan") for the production by Hai An and Tian Yuan (together the "Subcontractors") of certain of the Group's power tools for a period of two years commencing from 1 October 2001 to 30 September 2003. Based on the information available to the Board, Weng Shao Bo, a former executive director of the Company who resigned from the Board on 8 October 2002, has approximately 94.9% and 82% equity interests in Hai An and Tian Yuan, respectively. On 9 April 2003, the directors announced that, as a result of breaches of the Subcontracting Agreements by the Subcontractors, the Subcontracting Agreements had been formally terminated by Golden Harbour on 4 April 2003.

Since the resignation of the former executive director, despite their best endeavors and having obtained certain information from the Subcontractors, the directors have been unable to obtain all the necessary information required for the preparation of the financial statements.

- (i) Based on the latest information available to the directors, the Subcontractors have been withholding Golden Harbour's inventories of approximately HK\$14,531,000 and this amount has been included in the financial statements as at 31 December 2002. However, the directors were unable either to physically verify such inventories as at 31 December 2002 or to satisfy themselves as to whether there have been any subsequent sales of such inventories which should have been recorded in the financial statements for the year ended 31 December 2002.
- (ii) The directors are currently investigating whether the sum of HK\$17,855,000, included in trade and other receivables, relating to sales of goods manufactured by the Subcontractors and which remain unsettled, may, in whole or in part, have been collected by the Subcontractors.

In order to assist the Group in resolving the above issues, the Board has referred the matter to the relevant governmental authorities, including the People's Government of each of Hai An County and Nan Tong City with a view to resolving the matters satisfactorily through the assistance of the governmental authorities in the People's Republic of China. The directors remain confident that the inventories and the trade and other receivables referred to above and included in the Group's balance sheet as at 31 December 2002 will be recovered in full.

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For the year ended 31 December 2002

### 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the HKSA. The adoption of these standards has resulted in a change in the presentation of consolidated cash flow statement and the inclusion of a consolidated statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

#### *Presentation of financial statements*

The adoption of SSAP1 (Revised) “Presentation of Financial Statements” has resulted in the presentation of the statement of changes in equity. Comparative amounts for the prior year have been presented in order to achieve a consistent presentation.

#### *Foreign currencies*

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

#### *Cash flow statements*

In the current year, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid, received and dividends paid, which were previously presented under a separate heading, are classified as operating, investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

#### *Employee benefits*

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

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#### 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain property 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 as explained in note 1.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

##### ***Investment in a subsidiary***

Investment in a subsidiary is included in the Company's balance sheet at cost less any identified impairment loss.

##### ***Revenue recognition***

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

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

##### ***Property, plant and equipment***

Property, plant and equipment other than construction in progress are stated at cost or valuation less depreciation and amortisation and any identified impairment losses.

Land use rights are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land use rights is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress 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.

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For the year ended 31 December 2002

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Property, plant and equipment** (continued)

Depreciation and amortisation is provided to write off the cost or valuation of item of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line basis, on the following rates per annum:

Land use rights and buildings	Over the unexpired lease terms
Moulds	20%
Plant and machinery	10%
Leasehold improvements, furniture and fixtures	20-33 $\frac{1}{3}$ %
Computer equipment	20%
Motor vehicles	20-33 $\frac{1}{3}$ %

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

#### **Inventories**

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

#### **Impairment**

At the balance sheet date, the Group reviews the carrying amounts of its 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

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

***Foreign currencies***

Transactions in foreign currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at 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.

***Operating leases***

Leases where substantially all the risks and rewards of ownership remains with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

***Retirement benefit costs***

Payments to the Mandatory Provident Fund Scheme ("MPF scheme") and other schemes are charged as an expense as they fall due.

***Taxation***

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

**5. TURNOVER**

Turnover represents the amounts received and receivable for sales of power tools to outside customers, less returns and allowances during the year.

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For the year ended 31 December 2002

### 6. SEGMENT INFORMATION

The Group is engaged in the manufacture and distribution of power tools. The nature of the products and the production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Group's production facilities are located in the People's Republic of China excluding Hong Kong ("the PRC"). The directors of the Company consider that geographical segments by location of customers are the primary source of the Group's risk and returns.

Segment information by location of customers.

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Turnover		
Europe		
Germany	<b>176,279</b>	138,275
Other European countries	<b>70,466</b>	104,865
	<hr/>	<hr/>
Total	<b>246,745</b>	243,140
Asia	<b>94,555</b>	43,440
North America and other continents	<b>2,342</b>	3,802
	<hr/>	<hr/>
Total	<b>343,642</b>	290,382
	<hr/>	<hr/>
Segment results		
Europe		
Germany	<b>31,374</b>	21,702
Other European countries	<b>13,188</b>	25,608
	<hr/>	<hr/>
Total	<b>44,562</b>	47,310
Asia	<b>10,426</b>	4,511
North America and other continents	<b>1,560</b>	1,034
	<hr/>	<hr/>
Total	<b>56,548</b>	52,855
Unallocated corporate income and expenses	<b>(25,744)</b>	(15,894)
	<hr/>	<hr/>
Profit from operations	<b>30,804</b>	36,961
Finance costs	<b>(596)</b>	(199)
	<hr/>	<hr/>
Profit before taxation	<b>30,208</b>	36,762
Taxation	<b>(216)</b>	(197)
	<hr/>	<hr/>
Profit before minority interest	<b>29,992</b>	36,565
Minority interest	<b>261</b>	156
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Net profit for the year	<b>30,253</b>	36,721
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6. SEGMENT INFORMATION (continued)

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Segment assets		
Europe		
Germany	<b>27,008</b>	8,947
Other European countries	<b>11,431</b>	10,535
	<hr/>	<hr/>
Total	<b>38,439</b>	19,482
Asia	<b>29,444</b>	9,636
North America and other continents	<b>274</b>	453
Unallocated assets	<b>206,389</b>	83,443
	<hr/>	<hr/>
	<b>274,546</b>	113,014
	<hr/>	<hr/>
Segment liabilities		
Europe		
Germany	<b>16,927</b>	13,696
Other European countries	<b>9,439</b>	12,508
	<hr/>	<hr/>
Total	<b>26,366</b>	26,204
Asia	<b>4,397</b>	1,450
North America and other continents	<b>398</b>	2
Unallocated liabilities	<b>82,916</b>	39,927
	<hr/>	<hr/>
	<b>114,077</b>	67,583
	<hr/>	<hr/>
Other information		
Unallocated amounts		
Additions to property, plant and equipment	<b>69,842</b>	18,268
Depreciation and amortisation	<b>3,024</b>	1,547
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### 6. SEGMENT INFORMATION (continued)

#### **Business segments**

The Group's operations can be divided into manufacturing and outsourcing of goods. The following table provides an analysis of the Group's turnover by business segments of the Group:

	<b>Turnover by business segments</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Manufacturing	<b>189,887</b>	57,950
Outsourcing	<b>153,755</b>	232,432
	<b>343,642</b>	290,382

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment by business segments:

	<b>Carrying amount of segment assets</b>		<b>Additions to property, plant and equipment</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Outsourcing	<b>33,889</b>	13,575	–	–
Manufacturing	<b>189,475</b>	84,062	<b>69,157</b>	11,764
Unallocated	<b>51,182</b>	15,377	<b>685</b>	6,504
	<b>274,546</b>	113,014	<b>69,842</b>	18,268

### 7. OTHER OPERATING INCOME

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interest income from banks	<b>340</b>	542
Sundry income	<b>1,740</b>	4,147
	<b>2,080</b>	4,689

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**8. PROFIT FROM OPERATIONS**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 9)	<b>1,074</b>	96
Other staff costs	<b>11,717</b>	3,490
Contributions to retirement schemes for other staff	<b>995</b>	216
	<hr/>	<hr/>
Total staff costs	<b>13,786</b>	3,802
Auditors' remuneration	<b>777</b>	533
Depreciation and amortisation	<b>3,024</b>	1,547
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**9. DIRECTORS' REMUNERATION**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Directors' fees	–	–
Other emoluments:		
Salaries and other benefits	<b>1,050</b>	96
Contributions to retirement schemes	<b>24</b>	–
	<hr/>	<hr/>
Total emoluments	<b>1,074</b>	96
	<hr/>	<hr/>

No directors' fees or other emoluments were payable to independent non-executive directors for both years.

The emolument of each director was not exceeding HK\$1,000,000.

**10. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, four (2001: two) were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining one (2001: three) individual(s) was/were as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>550</b>	436
Contributions to retirement schemes	<b>12</b>	10
	<hr/>	<hr/>
Total emoluments	<b>562</b>	446
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### 11. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years.

### 12. TAXATION

The tax charge represented PRC income tax.

The Company's subsidiary, Golden Harbour, operating in the PRC is eligible for exemption from the PRC income tax for the year ended 31 December 2001 and 2002, followed by a 50% reduction in the PRC income tax for the next three years. The PRC income tax is calculated at the applicable rates on the assessable profits for the year.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits for the year.

Deferred taxation has not been provided in the financial statements as the amount involved is insignificant.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of the land use rights as the land is held for long term manufacturing purposes. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

### 13. DIVIDENDS

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Dividends paid by subsidiaries to its then shareholder prior to the Group Reorganisation	—	30,000
The Company		
Interim, paid – HK2 cents (2001: Nil) per share	<b>6,720</b>	—
Final, proposed – HK1 cent (2001: Nil) per share	<b>3,360</b>	—
	<b>10,080</b>	—

The final dividend of HK1 cent (2001: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

### 14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$30,253,000 (2001: HK\$36,721,000) and on the weighted average number of 309,764,384 (2001: 252,000,000) shares in issue on the assumption that the Group Reorganisation has been effective on 1 January 2001.

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**15. PROPERTY, PLANT AND EQUIPMENT**

	Land use rights HK\$'000	Buildings HK\$'000	Construct- ion in progress HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Leasehold improve- ments, furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>									
COST OR VALUATION									
At 1 January 2002	390	9,172	8,277	1,767	2,457	4,799	591	2,434	29,887
Exchange adjustment	242	88	78	17	23	31	-	22	501
Additions	-	-	62,182	861	4,838	386	609	966	69,842
Reclassification	-	27,431	(27,431)	-	-	-	-	-	-
Revaluation surplus	24,551	-	-	-	-	-	-	-	24,551
Disposals	-	-	-	(60)	(33)	(210)	-	(183)	(486)
<b>At 31 December 2002</b>	<b>25,183</b>	<b>36,691</b>	<b>43,106</b>	<b>2,585</b>	<b>7,285</b>	<b>5,006</b>	<b>1,200</b>	<b>3,239</b>	<b>124,295</b>
Comprising:									
At cost	-	36,691	43,106	2,585	7,285	5,006	1,200	3,239	99,112
At valuation									
- 28 February 2002	25,183	-	-	-	-	-	-	-	25,183
	25,183	36,691	43,106	2,585	7,285	5,006	1,200	3,239	124,295
DEPRECIATION AND AMORTISATION									
At 1 January 2002	111	800	-	1,055	309	2,945	261	1,136	6,617
Exchange adjustment	-	7	-	14	4	18	-	14	57
Provided for the year	572	554	-	379	365	601	114	439	3,024
Eliminated on disposals	-	-	-	(60)	(33)	(210)	-	(183)	(486)
Eliminated on revaluation	(683)	-	-	-	-	-	-	-	(683)
<b>At 31 December 2002</b>	<b>-</b>	<b>1,361</b>	<b>-</b>	<b>1,388</b>	<b>645</b>	<b>3,354</b>	<b>375</b>	<b>1,406</b>	<b>8,529</b>
NET BOOK VALUES									
<b>At 31 December 2002</b>	<b>25,183</b>	<b>35,330</b>	<b>43,106</b>	<b>1,197</b>	<b>6,640</b>	<b>1,652</b>	<b>825</b>	<b>1,833</b>	<b>115,766</b>
At 31 December 2001	279	8,372	8,277	712	2,148	1,854	330	1,298	23,270

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

The land use rights and the buildings are situated in the PRC under medium-term leases. During 2001, the PRC government granted a piece of land in Nantong, Jiangsu Province to the Group without consideration, the Group has recorded such grant at a nominal amount of HK\$1.

On 28 February 2002, the land use rights were revalued by DTZ Debenham Tie Leung Limited, an independent valuer. The directors have considered that there is no material difference between the fair values of the land use rights as at 31 December 2002 and their fair values as at 28 February 2002. The resulting revaluation surplus of HK\$25,234,000 have been credited to the revaluation reserve.

If the land use rights had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation of HK\$262,000 (2001: HK\$279,000).

### 16. DEPOSIT FOR AN INVESTMENT

In August 2002, the Group entered into an agreement to acquire a 50% interest in SBW Technische Gerate GmbH, a German power tools distributor. Up to the balance sheet date, the Group contributed US\$3 million to SBW Technische Gerate GmbH as the deposit for the investment.

Subsequent to the balance sheet date, the acquisition was completed and the deposit for investment was reclassified to interest in an associate.

### 17. INVENTORIES

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>13,150</b>	736
Work in progress	<b>3,809</b>	475
Finished goods	<b>3,055</b>	579
	<b>20,014</b>	1,790

No inventories are stated at net realisable value.

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**18. INVESTMENT IN A SUBSIDIARY**

	<b>THE COMPANY</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted investment, at cost	<u><b>80,000</b></u>	<u>–</u>

The carrying value of the unlisted investments is determined by the directors on the basis of the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group pursuant to the Group Reorganisation during the year.

Particulars of the Company's subsidiaries as at 31 December 2002 are set out in note 33.

None of the subsidiaries had any debt securities outstanding during the year or at the balance sheet date.

**19. TRADE AND OTHER RECEIVABLES**

The Group has a policy of allowing average credit period of 20-120 days to its trade customers.

In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

An aged analysis of trade receivables is as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Within 30 days	<b>33,918</b>	18,811
Between 31 to 60 days	<b>6,725</b>	4,837
Between 61 to 90 days	<b>1,062</b>	1,911
Between 91 to 120 days	<b>5,394</b>	3,400
Over 120 days	<u><b>21,058</b></u>	<u>611</u>
Trade receivables	<b>68,157</b>	29,570
Other receivables	<u><b>10,167</b></u>	<u>8,514</u>
	<u><b>78,324</b></u>	<u>38,084</u>

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### 20. AMOUNT DUE FROM A FORMER DIRECTOR / A RELATED COMPANY

Particulars of an amount due from a former director and amount due from a related company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong, are as follows:

<b>Name of former director</b>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Weng Shao Bo	<u>698</u>	<u>–</u>
<b>Name of related company</b>		
Tian Yuan	<u>–</u>	<u>5,173</u>

<b>Name of former director</b>	<b>Maximum amount outstanding during Year ended 31 December</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Weng Shao Bo	<u>1,934</u>	<u>–</u>
<b>Name of related company</b>		
Tian Yuan	<u>–</u>	<u>5,335</u>

The amount due from a former director is unsecured, interest free and is repayable on demand.

The amount due from a related company was unsecured and interest free. The amount was fully repaid subsequent to 31 December 2001. Weng Shao Bo, a former director of the Company, had a beneficial interest in the above company.

### 21. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group.

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**22. BANK BALANCES AND CASH**

	THE GROUP		THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank balances and cash denominated in				
Renminbi	<b>4,190</b>	6,406	–	–
Other currencies	<b>16,530</b>	32,834	<b>281</b>	–
	<b>20,720</b>	39,240	<b>281</b>	–

Renminbi is generally regarded as a currency that cannot be freely converted to other currencies.

**23. TRADE AND OTHER PAYABLES**

An aged analysis of trade and other payables is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 30 days	<b>35,841</b>	23,685
Between 31 to 60 days	<b>3,927</b>	8,116
Between 61 to 90 days	<b>3,153</b>	2,908
Between 91 to 120 days	<b>16,549</b>	1,970
Over 120 days	<b>21,381</b>	3,575
Trade payables	<b>80,851</b>	40,254
Other payables	<b>25,359</b>	8,747
	<b>106,210</b>	49,001

**24. UNSECURED BANK BORROWINGS**

The unsecured bank borrowings carried interest at 4%-6% (2001:5%-6%) per annum and were wholly repaid during the year.



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For the year ended 31 December 2002

### 25. SHARE CAPITAL

	Number of shares	HK\$'000
Shares of HK\$0.10 each		
Authorised:		
On incorporation	1,000,000	100
Increase in authorised share capital	<u>1,999,000,000</u>	<u>199,900</u>
At 31 December 2002	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Allotted and issued as nil paid and subsequently credited as fully paid at par pursuant to the Group Reorganisation	1,000,000	100
Issue of shares upon the Group Reorganisation	1,000,000	100
Capitalisation Issue	250,000,000	25,000
Issue of shares through initial public offering	<u>84,000,000</u>	<u>8,400</u>
At 31 December 2002	<u>336,000,000</u>	<u>33,600</u>

The following changes in share capital of the Company took place during the period from 26 June 2001 (date of incorporation) to 31 December 2002.

The Company was incorporated on 26 June 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. On 10 July 2001, 1,000,000 shares were allotted and issued nil paid.

Pursuant to resolutions in writing of the sole shareholder of the Company passed on 11 April 2002,

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of an additional 1,000,000 shares of HK\$0.10 each;
- (b) 1,000,000 shares of HK\$0.10 each were allotted and issued, credited as fully paid at par as part of the consideration for the acquisition by the Company of the entire issued share capital of United Win;
- (c) an amount of HK\$100,000, representing the 1,000,000 shares of HK\$0.10 each allotted and issued on 10 July 2001 as referred above, was credited as fully paid at par as part of the consideration for the acquisition by the Company of the entire issued share capital of United Win;
- (d) the authorised share capital of the Company was further increased to HK\$200 million by the creation of a further 1,998 million shares;

For the year ended 31 December 2002

**25. SHARE CAPITAL** (continued)

- (e) the directors were authorised to allot and issue a total of 250 million shares of HK\$0.10 each, credited as fully paid at par, to the holders of shares of the Company on the register of members at the close of business on 11 April 2002 in proportion to their then existing holding by way of capitalisation of the sum of HK\$25,000,000 standing to the credit of the share premium account of the Company. Those shares were issued on 24 April 2002 following the placing and public offer of the Company's shares mentioned in (f) below;
- (f) On 24 April 2002, 84,000,000 ordinary shares of HK\$0.10 each were issued at HK\$0.95 per share for cash through an initial public offering by way of placing and public offer.

All the above shares issued by the Company rank *pari passu* with the then existing shares in all respects.

The paid-up capital as at 31 December 2001 represented the aggregate amount of the nominal value of the issued share capital of the Company, United Win, Chief Wealth, WSP and GAL at that date.

**26. RESERVES**

	<b>Share premium account</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY			
Share premium arising on the Group Reorganisation	79,800	–	79,800
Premium arising on initial public offering	71,400	–	71,400
Share issue expenses	(13,979)	–	(13,979)
Capitalisation issue	(25,000)	–	(25,000)
Profit for the year	–	7,201	7,201
Interim dividend	–	(6,720)	(6,720)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	112,221	481	112,702
	<hr/>	<hr/>	<hr/>

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that, immediately following the distribution and dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to HK\$112,702,000.

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For the year ended 31 December 2002

### 27. OPERATING LEASE ARRANGEMENTS

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Minimum lease payments paid under operating leases during the year:		
Office and factory premises	341	260
Machinery and equipment	92	91
	433	351

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

	Office and factory premises		Machinery and equipment	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
THE GROUP				
Within one year	1,142	333	92	91
In the second to fifth year inclusive	430	543	322	365
Over five years	108	240	–	46
	1,680	1,116	414	502

Lease for office premise is negotiated for an average term of two years and rentals are fixed for an average of two years. Leases of factory premises, machinery and equipment will be negotiated after the lease term of eight years.

At the balance sheet date, the Company had no commitments under operating leases.

### 28. CONTINGENT LIABILITIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bills discounted with recourse	25,312	22,930

For the year ended 31 December 2002

**29. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>26,766</u>	<u>45,806</u>
Capital contribution to an investment contracted for but not provided in the financial statements	<u>5,252</u>	<u>–</u>

**30. SHARE OPTION SCHEME**

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 11 April 2002 for the primary purpose of providing incentives to eligible participants, who contribute to the success of the Group's operations, and will expire on 10 April 2012. Eligible participants include directors, eligible employees and other eligible parties.

From the date of the adoption of the Scheme to 31 December 2002, no options were granted. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. Options granted to substantial shareholders or independent non-executive directors or to any of their respective associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted may be accepted within 21 days of the date of grant, upon payment of a nominal consideration of HK\$1. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and may not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the share.

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For the year ended 31 December 2002

### 31. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries operate retirement schemes and a central provident fund scheme covering their employees. Commencing from 1 December 2000 the Group has joined the MPF Scheme for qualifying employees of the Group in Hong Kong. Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

The calculation of contributions for PRC eligible staff is based on 20% of the applicable payroll costs. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling.

### 32. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with its related parties.

Name of related company/party	Nature of transaction	2002 HK\$'000	2001 HK\$'000
Hai An (Note 5)	Purchase of goods (Note 1)	–	392
	Subcontracting fee (Note 2)	<b>1,132</b>	224
Tian Yuan (Note 5)	Purchase of goods (Note 1)	–	10,587
	Subcontracting fee (Note 2)	<b>566</b>	56
Mr. Wang Shu	Acquisition of property (Note 3)	–	5,607
		<hr/>	<hr/>
	Amount due from a former director (Note 4)	<b>698</b>	–
	Amount due from Tian Yuan (Note 4)	–	5,173
	Amount due to Wang Shu (Note 4)	–	3,751
	Amount due to Hai An and Tian Yuan (Note 4)	<b>1,883</b>	–
	Amount due to a former shareholder (Note 4)	–	2,783
		<hr/>	<hr/>

For the year ended 31 December 2002

### 32. RELATED PARTY TRANSACTIONS (continued)

Notes:

- Purchases were based on the prices mutually agreed by the parties concerned.
- The Group has entered into subcontracting agreements for a period of 2 years from 1 October 2001 with Hai An and Tian Yuan for paying a sum of RMB80,000 per month and RMB20,000 per month, respectively, for using their production facilities from 1 October 2001 to 31 December 2001. Thereafter, the subcontracting fees payable to Hai An and Tian Yuan will be increased to RMB100,000 per month and RMB50,000 per month, respectively, for the remaining period. According to the subcontracting agreements, other than the subcontracting fees mentioned above, the Group had reimbursed staff costs and other manufacturing costs to these two related companies in aggregate amounts of approximately HK\$445,000 and approximately HK\$551,000 respectively for the period from 1 October 2001 to 31 December 2001. The reimbursement of staff costs was discontinued after 31 December 2001.
- On 15 August 2001, a director of the Company, Wang Shu entered into a conditional sale and purchase agreement for the sale of properties in the PRC to Golden Harbour at an aggregate consideration of RMB6,000,000 by reference to the market value provided by an independent property valuer. The transaction was completed in November 2001.
- The balances are unsecured, interest-free and are repayable on demand.
- Weng Shao Bo, a former executive director of the Company and, Dai Wu Fang, a director of Golden Harbour, have beneficial interests in Hai An and Tian Yuan.

### 33. PARTICULARS OF SUBSIDIARIES

Name	Form of business structure	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Chief Wealth International Corp.	Incorporated	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
Gerrards Agents Limited	Incorporated	British Virgin Islands	Ordinary share US\$1	–	100%	Commission agency for overseas sales
江蘇鑫港企業有限公司 Jiangsu Golden Harbour Enterprises Ltd.	Wholly foreign-owned enterprise ("WFOE")	PRC	Registered capital US\$6,000,000	–	100%	Manufacture and distribution of power tools

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### 33. PARTICULARS OF SUBSIDIARIES (continued)

Name	Form of business structure	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
江蘇鑫城企業有限公司 Jiangsu Newairy Technology Ltd.	WFOE	PRC	Registered capital US\$2,600,000 (Note a)	–	100%	Manufacture of power tools
Rainy Company Inc.	Incorporated	British Virgin Islands	Ordinary share US\$1	–	100%	Investment holding
蘇州東欣工具有限公司 Suzhou Dong Xin Tools Co., Ltd.	Sino-foreign equity joint venture	PRC	Registered capital US\$556,000	–	91%	Manufacture and distribution of power tools
United Win International Corporation	Incorporated	British Virgin Islands	Ordinary shares US\$100	100%	–	Investment holding
Wang Sing Products Limited	Incorporated	Hong Kong	Ordinary shares HK\$1,000,000	–	100%	Trading of power tools

Note:

(a) The paid up capital was US\$50,000 at 31 December 2002.