

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

1. CORPORATE INFORMATION

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

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

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

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

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 24 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated into the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

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2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”) (continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 and in note 32(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 30 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

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

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

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

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Leased assets

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

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

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 32(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Intangible assets

Technical know-how

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Long term investments

Equity investments

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

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

Club memberships

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Foreign currencies**

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

Revenue recognition

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

- (a) from the sale of goods and scrap, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) tooling charge income, when the services are rendered; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of services to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the electronic and related components and parts segment comprise the manufacture and sale of electronic and related components and parts;
- (b) the consumer electronic products segment comprise the design, manufacture and sale of consumer electronic products comprising electronic calculators, alarm clocks and liquid crystal display products; and
- (c) the corporate and others segment comprises the Group's property holding activity, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the cost of sales.

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4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Electronic and related components and parts		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:										
Sales to external customers	112,053,991	100,949,411	88,704,483	86,058,392	-	-	-	-	200,758,474	187,007,803
Intersegment sales	5,103,462	4,925,805	-	848	-	-	(5,103,462)	(4,926,653)	-	-
Other revenue	3,038,627	1,971,853	473,134	236,602	2,461	1,752	-	-	3,514,222	2,210,207
Total	120,196,080	107,847,069	89,177,617	86,295,842	2,461	1,752	(5,103,462)	(4,926,653)	204,272,696	189,218,010
Segment results	(7,741,957)	(2,981,790)	2,984,910	(2,037,612)	(1,232,723)	(2,591,988)			(5,989,770)	(7,611,390)
Interest income									247,475	354,640
Gain on sale of long term investments, net									9,325,422	-
Profit/(loss) from operating activities									3,583,127	(7,256,750)
Finance costs									(2,904,978)	(2,740,691)
Share of loss of an associate									(45,782)	-
Profit/(loss) before tax									632,367	(9,997,441)
Tax									413,897	(567,795)
Net profit/(loss) from ordinary activities attributable to shareholders									1,046,264	(10,565,236)

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Electronic and related components and parts		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	122,978,078	121,406,806	49,283,358	34,966,651	14,695,296	17,604,603	23,237	(363,453)	186,979,969	173,614,607
Unallocated assets									548,492	766,763
Total assets									187,528,461	174,381,370
Segment liabilities	24,044,572	21,100,352	14,243,271	15,234,089	635,212	1,050,065	(4,625)	(1,559,999)	38,918,430	35,824,507
Unallocated liabilities									47,301,336	37,936,368
Total liabilities									86,219,766	73,760,875
Other segment information:										
Depreciation and amortisation	16,512,841	18,598,952	5,836,041	3,862,545	1,266,306	1,351,860	-	-	23,615,188	23,813,357
Write back of provision for doubtful debts	(8,514)	-	(928,805)	(3,140,000)	-	-	-	-	(937,319)	(3,140,000)
Provision of doubtful debts	857,980	-	-	-	-	-	-	-	857,980	-
Surplus on revaluation of leasehold land and buildings charged to:										
Fixed assets revaluation reserve	-	-	-	-	(170,927)	(96,805)	-	-	(170,927)	(96,805)
Profit and loss account	-	-	-	-	(179,706)	(239,706)	-	-	(179,706)	(239,706)
Capital expenditure	18,810,952	14,685,356	2,002,892	1,975,442	44,095	391,040	-	-	20,857,939	17,051,838

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments.

Group

	Segment revenue		Other segment information			
	Sales to external customers		Segment assets		Capital expenditure	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Hong Kong	77,752,498	76,394,750	59,361,115	55,813,826	91,363	610,589
Mainland China	4,858,468	5,462,720	108,121,825	98,271,418	20,348,312	14,159,300
Total in the PRC	82,610,966	81,857,470	167,482,940	154,085,244	20,439,675	14,769,889
Japan	25,805,906	9,806,201	4,927,603	3,435,241	–	–
Other Asian countries*	9,086,398	9,817,898	6,963,523	5,788,564	418,264	2,281,949
Total in Asia	117,503,270	101,481,569	179,374,066	163,309,049	20,857,939	17,051,838
Germany	30,943,489	30,641,332	2,464,709	2,233,913	–	–
Other European countries**	41,569,123	48,828,245	4,417,089	8,115,539	–	–
Total in Europe	72,512,612	79,469,577	6,881,798	10,349,452	–	–
North America	5,223,269	3,790,675	364,807	92,132	–	–
Others***	5,519,323	2,265,982	907,790	630,737	–	–
Consolidated	200,758,474	187,007,803	187,528,461	174,381,370	20,857,939	17,051,838

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

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

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

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5. TURNOVER AND REVENUE

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

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

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Turnover		
Sale of goods	200,758,474	187,007,803
Other revenue		
Interest income	247,475	354,640
Tooling charge income	1,197,100	741,840
Sale of scrap	1,974,772	886,926
Others	342,350	581,441
	3,761,697	2,564,847

6. OTHER OPERATING INCOME, NET

	Group	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Gain on sale of long term investments, net	9,325,422	–
Surplus on revaluation of leasehold land and buildings	179,706	239,706
Write back of provision for doubtful debts, net	79,339	3,140,000
Loss on disposal of fixed assets	(3,767)	(38,705)
Others	(300,612)	(1,066,826)
	9,280,088	2,274,175

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7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2002 HK\$	2001 HK\$
Cost of inventories sold	167,389,780	157,108,906
Auditors' remuneration	869,654	904,795
Depreciation	23,367,258	23,565,433
Minimum lease payments under operating leases:		
Land and buildings	3,026,520	2,699,534
Amortisation of intangible assets*	247,930	247,924
Staff costs (including directors' other emoluments – note 9):		
Wages and salaries	52,085,463	46,532,063
Pension scheme contributions	518,448	515,205
	52,603,911	47,047,268
Less: Amount capitalised in deferred development costs	(998,944)	–
	51,604,967	47,047,268
Foreign exchange losses, net	441,082	281,300

* The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

8. FINANCE COSTS

	Group	
	2002 HK\$	2001 HK\$
Interest expenses on bank loans and overdrafts wholly repayable within five years	2,235,548	1,756,776
Interest on finance leases	669,430	983,915
	2,904,978	2,740,691

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9. DIRECTORS' REMUNERATION

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

	2002 HK\$	2001 HK\$
Fees:		
Executive directors	–	–
Independent non-executive directors	312,000	312,000
	312,000	312,000
Other emoluments paid to executive directors:		
Salaries	3,860,349	4,802,980
Pension scheme contributions	30,000	36,000
Housing benefits	180,000	180,000
Other allowances	170,583	–
	4,240,932	5,018,980
	4,552,932	5,330,980

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

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

	Number of directors	
	2002	2001
Nil – HK\$500,000	2	2
HK\$500,001 – HK\$1,000,000	2	–
HK\$1,000,001 – HK\$1,500,000	2	4
	6*	6

* Including remuneration as director of the director who resigned during the year.

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10. SEVEN HIGHEST PAID EMPLOYEES

The seven highest paid employees during the year included four (2001: four) executive directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2001: three) non-director, highest paid employees are as set out below:

	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Basic salaries, allowances and benefits in kind	2,693,141	2,947,767
Pension scheme contributions	76,174	59,842
	2,769,315	3,007,609

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

	Number of employees	
	2002	2001
HK\$500,001 - HK\$1,000,000	2	2
HK\$1,000,001 - HK\$1,500,000	1	1
	3	3

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11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002 HK\$	2001 HK\$
Hong Kong tax:		
Provision for the year	146,000	925,000
Prior year's underprovision/(overprovision)	(179,000)	57,150
Deferred (note 28)	(457,000)	(710,000)
	(490,000)	272,150
PRC tax:		
Provision for the year	76,103	130,000
Prior year's underprovision	–	165,645
	76,103	295,645
Tax charge/(credit) for the year	(413,897)	567,795

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$8,847,921 (2001: HK\$2,669,712).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$1,046,264 (2001: net loss of HK\$10,565,236) and the weighted average of 250,004,800 ordinary shares in issue throughout the two years.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2002 and 2001 have not been shown as the share options and warrants outstanding during these years had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

NOTES TO FINANCIAL STATEMENTS

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14. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$</i>	Leasehold improve ments <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Moulds <i>HK\$</i>	Total <i>HK\$</i>
Cost or valuation:							
At beginning of year	26,949,280	22,358,111	81,129,715	16,356,558	2,755,079	66,854,794	216,403,537
Additions	-	4,356,155	9,014,909	1,631,885	-	5,854,990	20,857,939
Disposals	-	(2,866,168)	(655,925)	(4,759,808)	-	(27,636,773)	(35,918,674)
Deficit on revaluation	(290,773)	-	-	-	-	-	(290,773)
Exchange realignment	-	42,713	55,947	45,439	-	26,667	170,766
At 31 December 2002	26,658,507	23,890,811	89,544,646	13,274,074	2,755,079	45,099,678	201,222,795
Accumulated depreciation:							
At beginning of year	-	14,113,441	47,109,412	11,098,444	1,950,593	53,794,568	128,066,458
Provided during the year	641,406	3,648,040	8,870,513	2,362,511	466,980	7,377,808	23,367,258
Disposals	-	(2,866,168)	(655,925)	(4,756,086)	-	(27,636,728)	(35,914,907)
Written back on revaluation	(641,406)	-	-	-	-	-	(641,406)
Exchange realignment	-	12,152	6,799	14,672	-	9,343	42,966
At 31 December 2002	-	14,907,465	55,330,799	8,719,541	2,417,573	33,544,991	114,920,369
Net book value:							
At 31 December 2002	26,658,507	8,983,346	34,213,847	4,554,533	337,506	11,554,687	86,302,426
At 31 December 2001	26,949,280	8,244,670	34,020,303	5,258,114	804,486	13,060,226	88,337,079
Analysis of cost or valuation:							
At cost	-	23,890,811	89,544,646	13,274,074	2,755,079	45,099,678	174,564,288
At 2002 valuation	26,658,507	-	-	-	-	-	26,658,507
	26,658,507	23,890,811	89,544,646	13,274,074	2,755,079	45,099,678	201,222,795
Net book value held under finance leases:							
At 31 December 2002	-	-	16,682,379	604,276	-	-	17,286,655
At 31 December 2001	-	-	20,097,385	1,017,116	446,800	-	21,561,301

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

14. FIXED ASSETS (continued)

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

	PRC		Total HK\$
	Hong Kong HK\$	Mainland China HK\$	
Medium term leases	9,440,000	17,218,507	26,658,507

At 31 December 2002, the Group's leasehold land and buildings situated in Hong Kong were revalued on an open market, existing use basis by Chung, Chan & Associates, a firm of independent professionally qualified property valuers. The Group's leasehold land and buildings situated in Mainland China were revalued using the depreciated replacement cost method by the same firm of property valuers at 31 December 2002.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying values would have been included in the financial statements at approximately HK\$28,990,551 (2001: HK\$29,751,706).

The Group's leasehold land and buildings were pledged to secure general banking facilities granted to the Group (note 24 to the financial statements).

15. INTANGIBLE ASSETS

Group

	Technical	Deferred	Total HK\$
	know-how HK\$	development costs HK\$	
Cost:			
At beginning of year	1,239,647	–	1,239,647
Additions	–	1,750,000	1,750,000
At 31 December 2002	1,239,647	1,750,000	2,989,647
Accumulated amortisation:			
At beginning of year	661,145	–	661,145
Provided during the year	247,930	–	247,930
At 31 December 2002	909,075	–	909,075
Net book value:			
At 31 December 2002	330,572	1,750,000	2,080,572
At 31 December 2001	578,502	–	578,502

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$	2001 HK\$
Unlisted shares, at cost	58,999,981	58,999,981
Due from subsidiaries	78,425,212	69,532,553
	137,425,193	128,532,534
Provisions against amounts due from subsidiaries	(11,018,779)	(11,018,779)
	126,406,414	117,513,755

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

Particulars of the principal subsidiaries are as follows:

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

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Hi-Tech Investment Holdings Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	Investment holding
Hi-Tech Polymer (China) Inc.	Western Samoa/ Mainland China	US\$1	100	Manufacture of synthetic rubber products
Hi-Tech Polymer Limited	Hong Kong	HK\$10,000	100	Sale of synthetic rubber products
Hi-Tech Precision Plastic Limited	Hong Kong	HK\$3,000,000	100	Sale of plastic products
Hi-Tech Property Holdings Limited	British Virgin Islands/ Mainland China	US\$1	100	Property holding
Hi-Tech Silicone Rubber Manufactory Limited	Hong Kong	HK\$1,500,000	100	Sale of silicone rubber products
K & P Group (Holdings) Limited	British Virgin Islands/ Hong Kong	US\$1,238,545	100	Investment holding
K. S. (China) Electronics Manufactory Limited	Hong Kong	HK\$2	100	Investment holding
Mars Field Limited	British Virgin Islands/ Mainland China	US\$1	100	Manufacture of silicone rubber products, electronic calculators, alarm clocks and plastic products
Shenzhen Jiancheng Electronic Co., Ltd. ("Shenzhen Jiancheng")	Mainland China	HK\$12,000,000	*	Manufacture and sale of electronic calculators and alarm clocks

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

16. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Technology Trends International Limited	British Virgin Islands/ Republic of Singapore	US\$50,000	100	Sale of silicone rubber, synthetic rubber and plastic products and liquid crystal displays
TQL Technology Limited	Hong Kong	HK\$7,000,000	100	Manufacture and sale of liquid crystal displays
Webborton Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

17. INVESTMENT IN AN ASSOCIATE

	Group	
	2002 HK\$	2001 HK\$
Share of net assets	3,152,218	–

Particulars of the associate are as follows:

Company name	Place of incorporation	Nominal value of issued and paid-up share	Percentage of equity interest attributable to the Company	Principal activities
YOUEAL TTI Limited	Hong Kong	US\$1,000,000	41	Investment holding

The shareholding in the associate is held through a wholly-owned subsidiary.

18. LONG TERM INVESTMENTS

	Group	
	2002 HK\$	2001 HK\$
At cost:		
Unlisted equity investment	308,450	–
Equity investments listed in Hong Kong	–	5,023,000
Club membership	600,000	600,000
	908,450	5,623,000
Market value of listed equity investments included above, at cost	–	21,164,459

NOTES TO FINANCIAL STATEMENTS

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19. INVENTORIES

	Group	
	2002 HK\$	2001 HK\$
Raw materials	15,158,574	14,073,503
Work in progress	8,241,645	6,860,728
Finished goods	2,520,925	2,088,873
	25,921,144	23,023,104
Less: Provisions for slow-moving inventories	(118,749)	(2,134,865)
	25,802,395	20,888,239

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Prepayments	272,145	476,165	72,985	148,958
Deposits and other receivables	8,821,690	4,442,579	–	894
	9,093,835	4,918,744	72,985	149,852

Included in prepayments, deposits and other receivables is an amount due from an associate of HK\$315,859 (2001: Nil), which is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

21. TRADE AND BILLS RECEIVABLES

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

	Group	
	2002 HK\$	2001 HK\$
Within 90 days	26,199,330	27,465,627
Between 91 to 180 days	3,441,343	3,893,948
Over 180 days	1,157,879	1,381,778
	30,798,552	32,741,353

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

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Cash and bank balances	7,826,707	12,154,678	11,321	1,139
Time deposits	8,117,530	4,090,562	–	–
	15,944,237	16,245,240	11,321	1,139

23. INTEREST-BEARING LOANS AND BORROWINGS

	Notes	Group	
		2002 HK\$	2001 HK\$
Bank overdrafts		1,389,847	–
Current portion of bank loans		30,813,757	24,612,592
	24	32,203,604	24,612,592
Current portion of finance lease payables	26	5,451,879	6,623,497
		37,655,483	31,236,089

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

24. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2002 HK\$	2001 HK\$
Unsecured:		
Bank overdrafts	520,078	–
Trust receipt loans	2,707,817	12,521,313
Bank loans	14,054,349	1,352,339
Instalment loans	–	631,067
	17,282,244	14,504,719
Secured:		
Bank overdrafts	869,769	–
Trust receipt loans	6,640,053	5,777,755
Money market loan	4,000,000	4,000,000
Mortgage loans	1,365,096	1,695,288
Instalment loans	6,890,304	–
	37,047,466	25,977,762
Portion due within one year, classified as current liabilities (<i>note 23</i>)	(32,203,604)	(24,612,592)
Long term portion	4,843,862	1,365,170
The bank borrowings are repayable:		
Within one year or on demand	32,203,604	24,612,592
In the second year	3,628,310	347,355
In the third to fifth years, inclusive	1,215,552	1,017,815
	37,047,466	25,977,762

The secured bank borrowings were secured by fixed charges over the Group's medium term leasehold land and buildings with a net book value of HK\$26,658,507 (2001: HK\$9,500,000) and over bank deposits amounting to HK\$8,177,287 (2001: HK\$5,049,213).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

25. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	Group	
	2002 HK\$	2001 HK\$
Within 90 days	20,616,641	19,194,482
Between 91 to 180 days	1,062,637	714,408
Over 180 days	24,514	409,164
	21,703,792	20,318,054

26. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and equipment for its businesses. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At 31 December 2002, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Amounts payable:				
Within one year	5,848,227	7,188,378	5,451,879	6,623,497
In the second year	2,800,322	4,008,492	2,666,670	3,824,035
In the third to fifth years, inclusive	1,002,033	945,379	983,958	921,511
Total minimum finance lease payments	9,650,582	12,142,249	9,102,507	11,369,043
Future finance charges	(548,075)	(773,206)		
Total net finance lease payables	9,102,507	11,369,043		
Portion classified as current liabilities (note 23)	(5,451,879)	(6,623,497)		
Long term portion	3,650,628	4,745,546		

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

27. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Accrued liabilities	14,922,259	12,630,357	96,000	64,700
Other payables	2,292,379	1,965,793	5,853	59,100
	17,214,638	14,596,150	101,853	123,800

28. DEFERRED TAX

	Group	
	2002 HK\$	2001 HK\$
At beginning of year	1,357,000	2,067,000
Credit for the year (<i>note 11</i>)	(457,000)	(710,000)
At 31 December	900,000	1,357,000

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

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

	2002 HK\$	2001 HK\$
Accelerated depreciation allowances	2,847,743	4,124,267
Tax losses	(6,197,355)	(5,560,450)
	(3,349,612)	(1,436,183)

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

The Company did not have any significant unprovided deferred tax at the balance sheet date (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

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29. SHARE CAPITAL

Shares

	Group and Company	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Authorised:		
900,000,000 shares of HK\$0.10 each	90,000,000	90,000,000
Issued and fully paid:		
250,004,800 shares of HK\$0.10 each	25,000,480	25,000,480

Share options

Details of the Company's share option scheme are included in note 30 to the financial statements.

Warrants

On 16 March 2001, the Company issued 30,000,000 warrants at an issue price of HK\$0.05 each to independent investors. Each of these warrants entitles the holders thereof to subscribe for one new ordinary share of the Company of HK\$0.10 at a subscription price of HK\$0.30 per share payable in cash and subject to adjustment, from March 2001 to March 2003. At the balance sheet date, these warrants remained outstanding. Subsequent to the balance sheet date, none of these warrants was exercised and all of them were lapsed and cancelled on the expiry date on 15 March 2003.

NOTES TO FINANCIAL STATEMENTS

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30. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company’s share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 4 December 1996, the Company adopted a share option scheme (the “Old Scheme”), which was the first share option scheme of the Company, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Old Scheme was terminated and replaced by a new share option scheme at the annual general meeting of the Company held on 27 May 2002 (the “New Scheme”). Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and any options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The maximum number of unexercised share options currently permitted to be granted under the Old Scheme and the New Scheme must not in aggregate exceed 30% of the shares of the Company in issue at any time.

A summary of the share option schemes of the Company is as follows:

	Old Scheme	New Scheme
Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations.	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (“Invested Entity”).
Participants	Full-time employees (including executive directors) of the Company or any of its subsidiaries.	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity;

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

30. SHARE OPTION SCHEME (continued)

	Old Scheme	New Scheme
Participants (continued)		<ul style="list-style-type: none"> (ii) any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	17,300,000 ordinary shares and 6.9% of the issued share capital.	Not applicable.
Maximum entitlement of each participant	Shall not exceed 25% of the total number of ordinary shares in respect of the options that may be granted in accordance with the scheme.	Shall not exceed 1% of the issued share capital of the Company in any 12-month period.
Period within which the securities must be taken up under an option	An option may be exercised at any time during the 3-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the 3-year period or the tenth anniversary of the date on which the scheme is adopted by resolution of the Company in a general meeting, whichever is the earlier.	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of the grant of options subject to the provisions for early termination thereof.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

30. SHARE OPTION SCHEME (continued)

	Old Scheme	New Scheme
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised.	There is no minimum period for which an option granted must be held before it can be exercised.
Amount payable on acceptance	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.
Period within which payments/calls/loans must be made/repaid	Not applicable.	Not applicable.
Basis of determining the exercise price	Determined by the directors based on the higher of (i) 80% of the average closing price of the ordinary shares on the Stock Exchange of the five trading days immediately preceding the date of the grant of options; and (ii) the nominal value of shares.	Determined by the directors but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of options; and (iii) the nominal value of shares.
The remaining life of the scheme	The scheme has been terminated on 27 May 2002, but the provision of the scheme shall remain in force until 3 December 2006.	The scheme remains in force until 26 May 2012.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2002

30. SHARE OPTION SCHEME (continued)

The particulars in relation to each share option scheme of the Company that are required under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34 are disclosed as follows:

(a) Old Scheme

Name or category of participant	Number of share options				At 31 December 2002	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's share at grant date of options***
	At 1 January 2002	Granted during the year	Lapsed during the year	Cancelled during the year					
Directors									
Lai Pei Wor	2,500,000	-	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
Chan Yau Wah	2,500,000	-	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
Wong Kwong Ming	1,300,000	-	(1,300,000)	-	-	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
Chung Yik Cheung, Raymond	2,500,000	-	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
	8,800,000	-	(1,300,000)	-	7,500,000				
Other employees									
In aggregate	8,500,000	-	(500,000)	-	8,000,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
	17,300,000	-	(1,800,000)	-	15,500,000				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

NOTES TO FINANCIAL STATEMENTS

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30. SHARE OPTION SCHEME *(continued)*

(b) New Scheme

During the year, no options to subscribe for ordinary shares in the Company have been granted to any eligible participants, including the directors or their respective employees of the Group, its holding company or any of its subsidiaries under the New Scheme.

At the balance sheet date, the Company had 15,500,000 share options outstanding under the share option schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 15,500,000 additional ordinary shares of the Company and additional share capital of HK\$1,550,000 and share premium of HK\$930,000 (before issue expenses).

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

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

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve.

Goodwill amounting to HK\$11,924,221 arising on the acquisition of subsidiaries in prior years, which is stated at its cost, remains eliminated against consolidated retained profits as explained in note 3 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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31. RESERVES

(b) Company

	Share premium account <i>HK\$</i>	Warrant subscription reserve <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Retained earning/ (accumulated losses) <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2001	49,611,281	–	49,999,981	(11,129,983)	88,481,279
Placement of warrants	–	1,500,000	–	–	1,500,000
Warrant issue expenses	–	(110,525)	–	–	(110,525)
Net profit for the year	–	–	–	2,669,712	2,669,712
At 31 December 2001 and at 1 January 2002	49,611,281	1,389,475	49,999,981	(8,460,271)	92,540,466
Net profit for the year	–	–	–	8,847,921	8,847,921
At 31 December 2002	49,611,281	1,389,475	49,999,981	387,650	101,388,387

The contributed surplus of the Company represents the difference between the underlying consolidated net assets of K & P Group (Holdings) Limited and its subsidiaries at the date on which the Group's reorganisation became effective, referred to in note 31(a), over the nominal value of the share capital of the Company issued in exchange therefor, less the amount capitalised to pay up the nil-paid shares issued on the incorporation of the Company.

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

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest received, interest paid and taxes paid are now included in cash flows from operating activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout.

The definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove trust receipt loans amounting to HK\$18,299,068, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

NOTES TO FINANCIAL STATEMENTS

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$6,065,886 (2001: HK\$5,909,238).

33. POST BALANCE SHEET EVENTS

- (a) On 20 February 2003, the Group entered into an agreement with two shareholders of an associate of the Group, YOUEAL TTI Limited ("YOUEAL TTI"), in order to regulate the respective rights and obligations of the respective shareholders and the arrangements between them with respect to the ownership, management and operations of YOUEAL TTI. Pursuant to the agreement, each of the shareholders of YOUEAL TTI will subscribe for additional shares in YOUEAL TTI, in proportion to their existing shareholding in the company. After such share subscription, YOUEAL TTI will have an issued capital of US\$10,000,000. At 31 December 2002, the issued capital of YOUEAL TTI amounted to US\$1,000,000, and the Group had a 41% equity interest in YOUEAL TTI. The authorised commitment in respect of the Group's investment in YOUEAL TTI at the balance sheet date is included in note 36 to the financial statements.
- (b) On 3 March 2003, the Company entered into separate subscription agreements with several independent investors, pursuant to which these investors agreed to subscribe for unlisted convertible notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These convertible notes bear interest at 2% per annum and are convertible into shares of the Company at an initial conversion price of HK\$0.40 per share, subject to adjustment, during the period commencing from the date falling 24 months after the date of issue of the convertible notes on 17 March 2003, up to and including the day immediately prior to the maturity date of the convertible notes. Under the same agreements, the investors have also agreed to subscribe for unlisted loan notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These loan notes bear interest at 5% per annum, but are not convertible into shares of the Company. The maturity dates of these convertible notes and loan notes are 27 months and 24 months, respectively, from the date of issue on 17 March 2003. Any outstanding convertible notes and loan notes will be redeemed at maturity by the Company at 132.25% and 114%, respectively, of their face values plus accrued interest. The Group intends to use the net proceeds of US\$2,529,744 (equivalent to approximately HK\$19,732,000) from the issue of these notes to finance part of its investment in the associate as further explained in note 33(a) above.

34. CONTINGENT LIABILITIES

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Bills discounted with recourse	4,482,063	2,286,609	–	–
Guarantee of loan facility granted to subsidiaries	–	–	75,431,408	82,952,567
	4,482,063	2,286,609	75,431,408	82,952,567

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35. OPERATING LEASE ARRANGEMENTS

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

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Within one year	846,308	488,729
In the second to fifth years, inclusive	452,434	603,552
	1,298,742	1,092,281

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

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following commitments at the balance sheet date:

	Group	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Capital commitments contracted, but not provided for:		
Land and buildings	4,650,000	–
Plant and machinery	109,275	–
	4,759,275	–
Commitment authorised, but not contracted for, in respect of investment in an associate	28,782,000	–
	33,541,275	–

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

NOTES TO FINANCIAL STATEMENTS

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37. RELATED PARTY TRANSACTIONS

Details of the Group's advances to an associate are included in note 20 to the financial statements.

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2003.